The Community patent and the patent system in Europe, with evidence / House of Lords, Select committee on the European Communities.

HOUSE OF LORDS

SESSION 1997–98
26th REPORT

SELECT COMMITTEE ON
THE EUROPEAN COMMUNITIES

THE COMMUNITY PATENT AND THE PATENT SYSTEM IN EUROPE

WITH EVIDENCE

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WRITTEN EVIDENCE

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TWENTY SIXTH REPORT

9 June 1998

By the Select Committee appointed to consider Community proposals, whether in draft or otherwise, to obtain all necessary information about them, and to make reports on those which, in the opinion of the Committee, raise important questions of policy or principle, and on other questions to which the Committee considers that the special attention of the House should be drawn.

ORDERED TO REPORT

THE COMMUNITY PATENT AND THE PATENT SYSTEM IN EUROPE

9675/97 (COM(97)314)	Green Paper on the Community patent and the patent system in Europe: "Promoting innovation through patents".

PART 1 INTRODUCTION

1. A patent is traditionally a monopoly conferred by the State which is enforceable only within the national territory. There is at present no authority which has power to grant a single patent enforceable throughout the European Union. The idea of creating such a patent, in the same way as there is now a European trade mark, has been under discussion for a long time. In 1975 the then Member States actually signed a Community Patent Convention under which a unitary Community patent could be granted by a central European patent authority. But the 1975 Convention, which was incorporated within the Agreement relating to Community patents concluded in 1989 (together "the Luxembourg Convention"), has not yet been ratified by all Member States, and therefore has not entered into force. Nor is it, in its present form, ever likely to do so. The reasons for its failure are discussed in the body of this Report.

2. There is something called a European patent but the name is slightly misleading. The 1973 European Patent Convention (the "EPC") set up a European Patent Office (the "EPO") in Munich which acts as a central examining authority. The parties to the EPC include four which are not Member States of the European Union and the EPO is not a Community institution. An applicant may (on paying the appropriate fees) designate all or any of the States which are parties to the EPC and the patent, if granted by the EPO, will take effect as if it had been granted by the national authorities of each of the designated States. Proceedings against infringers are thereafter in principle governed by the law of each State for which the patent is registered, although the Convention has also largely harmonised their laws of infringement. A European patent is for this reason, frequently described as a "bundle of national patents". The national patent offices continue in existence and applicants are free to choose whether to apply by designation through the EPO or separately to each national patent office.

3. The Commission's *Action Plan for Innovation in Europe*[1] proposed a general framework for action by the European Union and Member States to improve the innovation environment in

[1] The Commission published its action plan in response to a call made by the European Council at the Florence Summit in June 1996. The plan had three major objectives: to foster an innovative culture; to set up a legal, regulatory and financial environment conducive to innovation; and to gear research more closely to innovation.

Europe. One proposal was that the legal and regulatory environment should be adapted and simplified, and in particular that the patent system should be made more efficient, more accessible and less expensive. The Commission promised a Green Paper on the subject.

4. In June 1997, the Commission presented its *Green Paper on the Community patent and the patent system in Europe*. It identified ease of obtaining patents, legal certainty and appropriate geographical coverage as necessary criteria for the effective protection of innovation in the Union. It noted the absence of a single system of patent protection within the Community and asked whether such a system, including giving jurisdiction to a central court, would be used. It also asked whether new Community measures were needed and/or whether existing arrangements needed to be revised. The Green Paper provided the basis for an extensive consultation with industry, individual inventors, patent agents and other interested parties on the adequacy of the current patent system within Europe. In addition to receiving written submissions, the Commission held a hearing of interested parties in Luxembourg in November 1997. The consultation was formally terminated at the end of that month.

5. The Committee last looked at the issue of the Community patent in 1986. In its Report, *A European Community Patent*,[2] the Committee concluded that the setting-up of a Community patent system operating uniformly throughout the Community would be of major benefit to commerce and industry and would contribute materially to the smooth operation of the Single Market. The Report called for the introduction of a Community patent without further delay. If all Member States could not agree, that should not prevent a Community patent coming into existence and being operative in those Member States who could.

6. Sub-Committee E (Law and Institutions), whose members are listed at Appendix 1, decided to carry out an enquiry into the principal issues raised by the Green Paper surrounding the notion of a unitary Community patent. In part 4 of the Paper ("Further Harmonization at Community Level") the Commission sought views on a number of related and sometimes more technical questions (such as the patentability of computer programs and software related inventions). Though these matters are undeniably important the Sub-Committee decided not to look in detail at them but to concentrate on the central issue of the need for a Community patent. Witnesses were invited to consider all or any of the following questions:

- What is the value of patents to United Kingdom industry?

- What purposes do the present patent systems in Europe serve for the United Kingdom?

- What would be the main advantages and disadvantages of patent protection covering the whole Community?

- Would the Community patent system as devised in the Luxembourg Convention be used if it were to come into effect (*ie* if all necessary ratifications were made)?

- What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)?

- Is there a case for further action at Community level?

- Should the Luxembourg Convention be turned into a legal instrument covered by the EC Treaty (*ie* a regulation made under Article 235)?

- What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable?

[2] 1st Report, 1986-87, HL Paper 17.

- What should be the relationship between any Community instrument and the European Patent Convention?

7. The Sub-Committee received the written and oral evidence from the witnesses listed in Appendix 2. The evidence is printed with the Report. We are grateful to all those who assisted in this enquiry.

PART 2 ISSUES AND EVIDENCE

THE VALUE OF PATENTS TO UNITED KINGDOM INDUSTRY

8. Witnesses were generally of the view that patents were of considerable value to industry in the United Kingdom. They were an incentive to innovation. The Confederation of British Industry (CBI) said that the most obvious beneficiary of the patent system was the pharmaceutical industry. A medicinal product might cost only a few pence to make, but millions of pounds might have been spent in its identification and testing and in obtaining regulatory approval. Without the benefit of the patent monopoly, no pharmaceutical company would be prepared to make the necessary level of investment. While the pharmaceutical industry gave the clearest and strongest example of the benefits of the patent monopoly, all industries benefited in a similar way. Patents were taken out by a wide range of undertakings, from the largest drugs company to small businesses and individual inventors (p 29).

9. The Trade Marks Patents and Designs Federation (TMPDF) emphasised the importance to industry of being able to recover the costs of research and development by way of sales as a means of funding the development of the next generation of products: "Industries find it impossible to recover these costs when lax patent regimes permit infringers to pirate inventions and thereby avoid similar development costs, and displace the patentee's goods from the market". There was also a need to maintain an effective patent system in order to secure adequate foreign patent protection under existing international obligations (p 33).

10. As regards the position of small and medium-sized enterprises (SMEs) the Chartered Institute of Patent Agents (CIPA) said that the notion that small firms cannot use patents because of the cost of enforcement was a fallacy. The existence of a patent normally tipped the scales against copying by competitors who were usually no more able to afford full scale litigation (p 14). The Law Society pointed to the opportunity patents can give to SMEs to grow rapidly and secure a substantial market share: "For example, the revolutionary construction of the Dyson vacuum cleaner (protected by patents) has enabled its manufacturer to secure over 50% of the UK market in some 4 years" (p 104). CIPA also explained that different industries used patents in different ways. In the electronics and computing industry products might incorporate tens or hundreds of patented inventions. Patent owners licensed patents on a non-exclusive basis and cross licences were common (p 14).

11. Professor Cornish said that patenting played a significant role in three ways: while some patents might bring the owners monopoly profits, more frequently a patent gave more limited protection against imitative products and processes embodying the invention; patents gave a reasonably certain legal basis for the transfer of technology to licensees; and, patents provided the relevant industry with early information about new developments (p 87). On the last point the Licensing Executives Society (LES) said that the patent system made a great deal of valuable technical and scientific information publicly available. When properly used, searches of patent databases could result in very significant savings in unnecessary repetition of research (p 17).

12. Professor Cornish also pointed out the value of patents in the United Kingdom to persons other than British companies. Patents operated as a stimulus not to researching in a given country but to marketing there. He said: "If there is a valid UK patent, an innovator may provide his product or process to the British user or consumer (albeit at a price) where otherwise he might confine himself to countries where he has adequate protection. It is important to evaluate the patent system with this consumer perspective in mind" (p 87).

THE PRESENT EUROPEAN PATENT SYSTEM

13. The EPC was generally regarded as a success. It has served as a pole of attraction for European countries and users of the patent system. It entered into force in 1977, with seven members (Belgium, Germany, France, Luxembourg, the Netherlands, Switzerland and the United Kingdom). There are now 19 Contracting States (all EU members, plus Cyprus, Liechtenstein,

Monaco and Switzerland)[3]. The EPO has also established a contractual network extending the protection conferred by European patents to Slovenia, Lithuania, Latvia, Albania, Romania and the former Yugoslav Republic of Macedonia. There has been a constant increase in the number of patent applications filed and grants made. The number of applications has soared from just over 15,000 in the first year and a half of the EPO's operation (1 June 1978 to 31 December 1979) to an estimated 96,000 in 1997. The 40,069 grants made in 1996 represented an increase of around 10,000 in the number granted in 1992 (30,408).[4] Professor Cornish attributed the success of the EPC regime to its convenience for non-EC industry, particularly that of the US and Japan (p 87).

14. Witnesses pointed out the value and advantages in the present system of a grant of a European Patent by the EPO. In particular it provided flexibility and potential costs savings. Patent protection could be sought for one or more Member States. Applicants could obtain protection throughout Europe using the EPC, at significant cost saving compared to having to file for national patents in each country. The TMPDF said: "From the point of view of the patentee, the European route for patent protection is both more consistent and more financially efficient than the national route" (p 34).

15. The BioIndustry Association (BIA) said that the savings in costs would typically be achieved by designating four countries. The BIA also noted that a European Patent gave rise to patent rights having a higher presumption of validity than rights granted by non-examining national patent offices (p 27). In addition to savings and other advantages relating to the application for patents, the Intellectual Property Lawyers Association (IPLA) pointed out that the EPC system also provided an opportunity for parties to oppose the grant of patents, if opposition was launched within nine months of grant (p 102).

16. LES, however, said that there were difficulties with the present system and improvements should be made. The EPO's procedures needed to be improved: "they need to be speeded up, made more rigorous (particularly as regards the way in which evidence is adduced), and made more open" (p 17). Zeneca said that the procedure was, notwithstanding recent fee reductions, still expensive. The costs associated with filing translations of the full specification for national phase entry were also unnecessarily burdensome (p 37). The Law Society described the current difficulty in achieving consistency in the application of the EPC: "National courts struggle to reconcile their decision with those of the Boards of Appeal of the EPO, and they may reach different decisions on identical facts while purporting to be applying the Protocol to Article 69 of the EPC in infringement actions. These problems emphasise the need for judicial arrangements which will promote consistency" (p 106).

17. There was general agreement that even if there were a Community patent current national and European systems should remain and that the market should be allowed to decide their fate. The British Retail Consortium (BRC) said that the patent system must continue to provided a flexible and cost effective system for all including SMEs and others who do not require Community-wide patent protection: "Any Community patent must co-exist with national offices and the EPO" (p 85). Mr Terry Johnson, a patent agent, said that national patent offices catered "for the fact that economically it is often the case that industry, whether big or small in economic terms, often requires protection in only certain territories... It is the lack of a commercial need (in a particular country) which results in a failure to patent there, and not the reverse, namely that no patent results in a lack of a commercial need (or technology base) in the particular country" (p 90). CIPA believed that it was essential that the choice of obtaining national patents (either by separate national applications or as a European patent obtained under the EPC) should remain if a unitary system

[3] All EPC Contracting States are also Parties to the 1970 Patent Cooperation Treaty, an international agreement which simplifies procedures for patentees wishing to file for patents in a number of countries by dispensing with the need to file separate applications in each. The EPO is one of the bodies which may receive an "international application" designating the countries in which protection is sought. It may also carry out an "international search" and an "international preliminary examination".

[4] These figures, taken from the annual reports of the EPO, appear in a paper by Dr Joseph Strauss for Fordham University's Sixth Annual Conference on International Intellectual Property Law and Policy 1998.

were introduced (p 14). Professor Cornish, however, questioned whether there was sufficient justification for continuing the national patent systems after another decade or so. It would depend on how efficient and fair the European system could become (p 87).

POTENTIAL ADVANTAGES AND DISADVANTAGES OF A COMMUNITY PATENT

18. The Intellectual Property Institute (IPI) agreed with the arguments in the Green Paper in favour of a unitary patent system in the Community. Innovation would be stimulated if it was possible to secure and maintain, at modest cost, a single, reliable, high quality patent having uniform effect throughout the whole Community. Consumers would benefit from improved or cheaper products. In addition employment and prosperity would be stimulated (p 1). For CIPA, Mr Gold said: "Instead of a multiplicity of patents to watch over and administer, you have one single patent covering a very large market of 300 million-plus people, and serving a market which is increasingly integrated". In place of myriad rules and regulations there should be simplicity and lack of complexity (Q 69). Judge Brinkhof said that the creation of Community patents would contribute to the realization of the internal market (fair competition and the free movement of goods) (p 51). Professor Cornish said: "Within a common market, the major intellectual property rights should be granted for the whole territory on a common legal basis". He referred to the US and Australia which operated as free trading units and granted patents for the whole country (p 87).

19. In terms of the main advantages of a Community unitary patent, a number of witnesses identified potential costs savings, both at the application stage and when the patents were being enforced; reduced complexity; and greater consistency in the application of European patent law in the different Member States. LES, however, stressed that these were "theoretical" benefits (p 17).

20. The TMPDF contrasted the potential advantages of an effective Community system with the arrangements under the EPC: "A major disadvantage at present is the enormous cost, since, in addition to the EPO's very large fees, the patent when granted has to be transferred to the national systems, involving heavy translation costs and sometimes large administrative fees. A separate agent has to be employed for each State from the grant stage, adding greatly to costs. Subsequently, annual maintenance fees, which in some States are very high, have to be paid in each State, with associated administrative costs. If there is subsequent litigation, this will proceed independently in each State concerned, with further high costs, uncertainty and delay and the possibility that results will be inconsistent" (p 35). The TMPDF regarded a number of elements of the proposal for a Community patent as particularly important. First of all came costs. Mr Blakemore said: "We feel that the aggregate fees which we would have to pay for such a patent ought to be no more than three times the corresponding national fees that might be payable for present forms of patent. We would also expect to enjoy lower translation costs and lower attorney fees". Secondly, the patent should cover the whole of the Community. Finally, there should be legal certainty in relation to the enforcement of the patent (QQ 110-111).

21. The CBI said that any disadvantages would depend upon the need for any particular patentee to have Europe-wide protection, and the speed, cost and quality of the decisions in litigation (p 30). CIPA said that a potential disadvantage of a Community patent would be that an inexperienced national court might be able to declare the patent invalid across the EU (p 15). This "all eggs in one basket" problem was, in the Law Society's view, the main disadvantage (p 105). Zeneca also identified the potential demise of the EPC and national patent systems (p 38).

DEFECTS IN THE COMMUNITY PATENT SYSTEM IN THE LUXEMBOURG CONVENTION

22. The CBI said that the Luxembourg Convention had serious defects (p 30). There was general agreement that the Green Paper had correctly identified the two main problems, translation costs and the absence of adequate judicial arrangements. LES described the Convention as "unworkable" for these two main reasons (p 17). The IPI said the system in the Convention was "inadequate: too uncertain, too slow and too costly and the risks of poor judgments are too great" (p 2). The general reaction of witnesses was if the Luxembourg Convention was to enter into force

(*i.e.* if all necessary ratifications were made) it would not be used. CIPA said: "The legal provisions are unsatisfactory and no advantage in cost is readily apparent" (p 15).

(a) Translation Costs

23. Under the Luxembourg Convention (Article 30) the entire patent specification would have to be translated into the languages of all the Member States. A Community patent granted in the Community of Fifteen would thus require ten translations. The CBI described the cost of translations as "probably the greatest disadvantage of the Luxembourg Convention" (p 31). The TMPDF said: "The translation requirements alone are very onerous, involving the invalidation of the whole patent if even only one translation is missing three months from the mention of grant in the Official Bulletin. This alone is sufficient to ensure that the system of the 1989 Luxembourg Convention would be very little used" (p 35).

24. Under the current EPC system there is no need to translate the whole specification at the outset. Applications are accepted in any one of the three official languages of the EPO—English, French or German. On the first publication of the application (after an official search into the prior technical literature, but before any technical examination), it is necessary to provide translations of the claims in the other two official languages. When the patent is granted, the claims finally allowed must be translated into the other official languages. However, at this stage, it is also open to EPC countries to require translation of the whole specification into national languages and all EPC States except Germany, Luxembourg and the United Kingdom have insisted on this.

25. In the view of LES, the translation question was a far greater problem for patents than for trade marks. The words and terms used in the specification and claims, and how they were understood by the ordinary skilled addressee, determined the scope of protection, and validity, of the patent. Expert (and therefore expensive) translators would be needed to ensure consistency of meaning and application in different jurisdictions (p 18).

26. Witnesses were generally agreed that translation costs were a major problem. Zeneca produced a table setting out the comparative costs under the existing and proposed regimes, as well as in the United States and Japan.[5] The EPO had also prepared a study.[6] CIPA described translation costs at grant as a significant contributor to the high cost of obtaining patent protection throughout the EU. Mr Lees said that they were a particular problem for SMEs, who might find their costs doubled. Costs were an overriding factor for SMEs under the present European regime: "If they require countries like Austria and Sweden, where the charges are very high, that is hard lines. They prefer to take the countries where for one translation into French, for example, you can have three or four countries" (p 15, Q 78).

27. The BIA acknowledged that the present EPC system had not solved the problem of translation costs. But the problem had been ameliorated by, firstly, deferring translation costs from the time of filing to the time of grant and, secondly, dispensing with translation costs in the event of a patent application being unsuccessful (p 27).

28. Witnesses agreed that a Community patent system which required full translation in all languages would not be used (p 18). The CBI said that the only way for a Community patent to succeed would be if the specification needed only to be translated into a small number of languages (p 31).

29. It was acknowledged, however, that there was, in the words of the BIA, "a tension between the desirability of having a patent system which is not unduly burdened by the cost of translation and the essential unfairness of companies and individuals in European countries being subject to patent rights which are framed in a language they cannot understand" (p 27). Mr Terry Johnson

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[5] The table is reproduced at page of the evidence printed with this Report.

[6] The results are described in "The cost of patent protection in Europe", a paper delivered by Dr. U. Schatz (EPO) to Fordham University's Sixth Annual Conference on International Intellectual Property Law and Practice, April 1998.

considered it to be essential that the whole text of any Community patent be translated into the official language of each Member State: "It must be remembered that an applicant for a patent is seeking to establish a legal right which will curtail the activities of third parties ... such applicant has an obligation to inform at his own expense all those who will be affected by that right in a language which they can understand" (p 90). Lord Justice Aldous said: "Any cut back in translation must be weighed against the need and right of the individual to know what he is prevented from doing by a monopoly granted by the State/Community created Patent Office. Surely a person must have the right to read in his own language what he may not do. If so, at least the abstract and claims need to be translated" (p 78).

30. Jacob and Laddie JJ disagreed: " To those who say an individual has a basic right to know what the subject of a monopoly is in his own language, large industry at least is saying this is impractical. Moreover since validity depends upon the prior art and that art is likely to be in English (or some other foreign language) the position that a man can ascertain his rights simply reading material in his own language has long been sold. Even under the present system translations are only provided late in the day—yet if a patent is granted rights operate from the date of publication just in the language of the original application (French, German or English)" (p 53).

31. The Green Paper canvassed a number of possible solutions restricting translation at certain stages, including the so-called "package solution". This had three main features: publication, at the same time as publication of the application or as soon as possible thereafter, of an enhanced abstract in the language of the proceedings and, subsequently, of translations into the languages of all the Member States; translation of the patent claims only at the time the patent is granted; translation of the full patent specification before any action is brought by the patentee with a view to enforcing the patent rights.

32. The Patent Office explained that the proposal that the translation be restricted to an enhanced abstract had been devised by the EPO. From the point of view of patent professionals that would probably be sufficient (Q 264). The I.P.Bar Association (IPBA) did not believe that requiring translation only of an abstract of an invention and leaving all matters of translation to be determined only when a dispute arose was an acceptable solution: "Merely having a translation of the abstract cannot give a full flavour of the description and must lead to uncertainty as to whether the abstract is a fair synthesis of invention. Equally any interested rival of the patentee must obtain a full translation before deciding a course of action and it is inherently likely that that translation will not coincide with any subsequent official translation obtained by the patentee and again uncertainty will result. Further the scope for dispute as to an accurate translation once the patentee is aware of the alleged infringement is obvious" (p 100). The Patent Office acknowledged that there were problems with the proposal (Q 263).

33. A number of witnesses proposed that any Community system should use a single working language, English. The idea was that applicants might file in their own language, but thereafter all procedures would be in English (QQ 133, 261). The CBI said that European industry had indicated strongly that it wished to see the Community patent operate in English only with no translation of the specification: "They take that position on the grounds that English is spoken by all industry in Europe; that it is the language of technology; that the majority of any prior art which would be relied on to attack a patent will be in English; and that it is the language in which most, probably all, international companies conduct their activities" (p 31).The TMPDF did not think that the EPO would have any difficulty in switching to working in English alone (Q 160).

34. Witnesses emphasised that it was not simply British industry but also European industry which was urging standardising on English. A number of witnesses, including the CBI, referred to the evidence given at the Commission's hearing on the Green Paper in Luxembourg (Q 137). For CIPA, Mr Gold said: "It was remarkable that the European industrial groupings, with German and French spokespersons, were saying, "We are not talking about the language of Molière or Goethe or Shakespeare. We are talking about technical and legal jargon ... this is not a cultural issue, this is a technological, research and development issue, and *de facto* English is the language" (Q 83).

Witnesses pointed to the wide spread use of English in the scientific field and in applications for European patents. The Patent Office said that in the European context about 70% of all applications were made in English, 20% in German and 10% in French (Q 261). Both the TMPDF and CIPA also said that in practice translations were not used (Q 82, 163).

35. The Association of the British Pharmaceutical Industry (ABPI) gave a further reason for the sole use of English: it would be helpful to SMEs (EFPIA p 79). The Patent Office identified a contrary argument. Some Member States might argue that there was a problem, in particular for small firms, who might find themselves the object of infringement proceedings in respect of a patent which they had not been able to read in their own language (Q 263).

36. Though there was general agreement that one language, English, was the preferred solution, witnesses also recognised the political difficulties inherent in such a solution. Professor Cornish said: "there seems no way which the British can press the case for it without inflaming national susceptibilities" (p 89). Referring to the Commission's hearing in Luxembourg, Mr Hartnack (Patent Office) said: "The difficulty is that that view on the part of European industry was not shared by government representatives at the conference, and it is my view that it remains an obstacle" (Q 261). Judge Brinkhof did not believe the English only solution to be viable: " It is not industry which decides but the Parliaments. I think Parliament will say every citizen has the right to know what he can and cannot do and he has to base his conduct on texts in his own language". He considered it more feasible to see whether the extent of translations could be limited in some way (Q 239).

37. The BIA sought to make a special case for the bioscience industry : whatever solution to the translation problem was found, all biotechnology-related European patents should be translated in full upon grant into English. Mr Sheard explained that "pre-eminent among the emerging technologies biotechnology has the claim of being almost exclusively based in the English language". He added: "aside from the fact of English pre-eminence, the high value products of biotechnology which are often health care mean that the bioscience industry ... tends to apply widely throughout Europe, so the translation costs do hit it" (p 27, QQ 174, 175).

38. The Patent Office said that a first step towards reducing costs might be to revert to the position when the EPC was signed in 1973, which was a three-language solution. Some further sort of compromise on the language issue might be needed beyond that (QQ 264, 266)). The BRC, while supporting the use of one language, English, could accept as an alternative the use of English, French and German (p 85). The TMPDF said that they could live with such a restricted regime but were not hopeful that it would secure political agreement.The EPO practice (English, French and German) was not an apt precedent. The three languages were only used for the procedure for granting the patent. The applicant still had to face the prospect of translation into the language of every country designated (QQ 141-2,159-60). Mr Sheard (BIA) said: "The European Patent Convention only requires the translation of claims. It is the national statutes that require the translation of whole specifications, so really the present position is not three full translations" (Q 164).

39. For CIPA, Mr Gold said that they could accept English and French (Q 84). CIPA's preferred solution was, however, "translation on demand". Mr Lees explained: "The intention of this is to meet the point about specifications gathering dust. That you would only get a translation if you requested it ... you pay a fee on request - not necessarily a very large fee - but nevertheless some kind of deterrent: and that the costs of producing the translation are borne out of the renewal fee income, which is quite large overall and some of which we understand is not spent within the intellectual property system" (Q 85).

40. Witnesses also pointed to the potential implications of enlargement. Mr Blakemore (TMPDF) said: "as the Community expands the number of languages, of course, will increase substantially and the translation costs in the end would completely swamp the system" (Q 140). Mr Nott (CBI) expressed concern that as the Community expanded the argument for having a single

language or a limited number of languages would become more difficult to maintain (Q 162). The Patent Office thought that market forces might come into play here. The applicant States would face a hard choice if they wanted to encourage technology transfer. If translations were required parties using, for example, the EPO regime, might not designate the new State. As a result those States would lose the not inconsiderable fee income generated on renewals and would not get the technology transfer (Q 266).

(b) Judicial Arrangements

41. Jacob and Laddie JJ considered the existing arrangements for the litigation of patents in Europe to be unsatisfactory for three reasons. First, there was no central unified system. The need for parallel suits in a number of jurisdictions with the possibilities of different and conflicting results in different countries was a problem. Second, the courts of some Member States (notably the Netherlands but also Germany and France) were asserting cross-border jurisdiction. This had already given rise to practical difficulties. Third, the position under the 1968 Brussels Convention on jurisdiction and enforcement of judgments was unsatisfactory. In particular, the main rule that a plaintiff must sue in the defendant's home State was subverted by the possibility of suing any seller of infringing goods, thus in practice giving the plaintiff a wide choice of jurisdiction. Potential defendants also had opportunities to forum shop, by starting actions for declarations for non-infringement and revocation suits in a court of their choice (where the proceedings might be protracted) and then relying on Article 21 of the Brussels Convention (which requires a court to decline jurisdiction when the same action is pending before the court of another Member State) to say that the court of their choice is first seised of the dispute. This tactic has become known as "the Italian torpedo"(p 53, QQ 208-9).

42. Under the Luxembourg Convention infringement and validity questions would be separated, the former being for national courts to determine while the latter were to be dealt with by a special revocation division within the EPO with appeals to a revocation board. That regime was amended by the 1989 Agreement. Certain national courts with appropriate experience would be deemed Community patent courts in order to hear claims for infringement of a Community patent and counterclaims for its revocation. Separate proceedings to revoke the patent might still be brought before a revocation division of the EPO. Superimposed on these national courts and EPO there was to be a new court, the Common Appeal Court (COPAC), constituted by judges experienced in patent law from each Member State. Appeals from a national court of first instance would go to a national court of second instance which would be obliged to refer to COPAC all questions concerning the effect of the patent (*i.e.* the substantive question of whether it had been infringed) and its validity. COPAC's decisions on these matters would be final. The national court of second instance would be left to apply the COPAC decision but would itself determine any question on available remedies, the persons liable, enforcement, limitation periods and so on. As regards the relationship with the European Court of Justice, COPAC could request the Court of Justice to give a preliminary ruling where there was a risk of inconsistent interpretation between the CPC and the EC Treaty. The Commission or a Member State would, where it considered there was such an inconsistency following a decision of COPAC, also be able to seek a ruling from the Court of Justice.

43. Most witnesses considered the judicial arrangements under the Luxembourg Convention to be unsatisfactory. Judge Brinkhof said: "they are the fruits of too many compromises and reflect a certain distrust *vis-a-vis* national courts ... the arrangements are neither fish, flesh, nor a good red herring!" (p 52). For CIPA, Mr Gold drew attention to the lack of harmonisation of enforcement procedures in the national courts (Q 71). But not all witnesses condemned the Luxembourg Convention. IPLA considered the concerns expressed about the judicial arrangements in enforcement proceedings might be exaggerated given the check of a Community Patents Court of Appeal: "in fact in practice the less sophisticated local jurisdictions are likely, in our experience, to be more favourable to the plaintiff patentee on the question of validity than are those that are less impressed by the mere fact that a patent has been prosecuted to grant" (p 103). That concerned Sir Hugh Laddie: " the bee in my bonnet is that if you do not know enough about patents you could

work on the assumption that they are all valid because they have a stamp on them, and I am afraid to say that patent offices end up by giving patents out in many cases, not all cases, when the patent is invalid and if you end up litigating in front of a court with no experience, you will end up having unjustified monopolies and unjustified monopolies mean that you close down parts of European industry for no good reason" (Q 216). Mr Hartnack (Patent Office) said that in his experience the problem was the reluctance of one or two national courts in Europe to declare that one of their nationals had infringed (Q 272).

44. The Green Paper sought views on an arrangement whereby actions for revocation of Community patents would fall within the exclusive jurisdiction of the EPO, with appeals to the Court of First Instance (CFI) and from there, on points of law only, to the Court of Justice. Thus, contrary to the provisions of the Luxembourg Convention, national courts would not, in infringement proceedings, have jurisdiction for counterclaims for revocation of Community patents.

45. Witnesses did not support the idea that the EPO should have exclusive jurisdiction for all revocation proceedings (*e.g.* CIPA p 13). The existing dispute resolution mechanisms were criticised. The IPBA said that the EPO had not proved itself to be effective in achieving speed or certainty. Whilst the primary concern was over delay, a secondary complaint related to problems over fact-finding (the EPO did not have the mechanism to act as a fact finding tribunal, which was particularly important where the validity of a patent was put in issue on the ground of prior use which could occur on a worldwide basis). The EPO was failing to serve the needs of the patent community. The IPBA said: "We cannot emphasise forcefully enough our grave concern at the suggestion made in the Green Paper that this body should be entrusted with this responsibility" (p 99). The Law Society was also strongly opposed to the idea and added: "The only counterbalance proposed in the Paper, namely that of the CFI, would be unlikely to be effective on issues of substantive patent law" (p 105). Jacob and Laddie JJ said: "It is to be hoped (and expected) that things will improve, but the position remains that it is essentially a patent office. We do not think it should be given the ultimate say over validity as is proposed in the Green Paper" (p 53).

46. The general view of witnesses was that questions of the validity and infringement of patents should be tried together (QQ 192, 259). The IPBA explained why this was necessary: "both aspects require the claim to be construed. Once the claim has been construed then the questions of validity and infringement can generally be decided relatively easily. Often there is a squeeze between infringement and validity in that a patentee will contend for a wide construction of the claim so as to render the alleged infringing product an infringement but will wish to have a narrow construction of the claim when seeking to distinguish a particular piece of prior art. Having a different court determine the issues of validity and infringement increases the scope for abuses of this nature ... Equally, if infringement proceedings are to be stayed pending determination of validity, this unnecessarily prolongs the uncertainty" (p 98). Professor Cornish said that the German division of functions did not have unanimous support in that country and had in some degree been modified by case-law. In his view it was "vital that a single court should be able to consider the parallel issues side-by-side in order to reach a balanced judgment of the merits overall" (p 88).

47. In CIPA's view it was vital that issues of validity were considered together with infringement (p 13). Other witnesses also favoured such "one-stop shopping" but, as BIA pointed out, simply giving national courts the power to decide on infringement and revocation throughout Europe was not, on its own, the answer (p 29). CIPA said that each Member State had a different history and judicial system where validity, enforcement, formality/procedure, timescales, costs and remedies for patent infringement were handled differently. There was, therefore, a wide range of effectiveness of patents throughout the EU: "To run the risk of a patent for the whole of the EU being subject to a low quality court decision would be wholly unacceptable to a patentee" (p 15). Moreover, as BIA said, there was little support for the idea that national courts should have jurisdiction on revocation while confining the effects of their decision to the territory of the Member State in which they were located (p 29). Judge Brinkhof saw splitting the issues of infringement and validity and limiting the territorial scope of decisions of national courts as being contrary to the unitary character of the Community patent (p 52).

48. Witnesses wanted a judicial system in which they could have confidence. Zeneca said: "The Community needs a harmonized court system which is secure and reliable, which can deal efficiently with the issues and in which the certainty of, and confidence in, the judicial process is assured". Dr Smith said that legal certainty was more important than the question of translations (p 38, Q 193). Professor Cornish said that it was difficult to establish patent tribunals in a way which commanded respect: "The centrality of technological issues requires judgment either by experts in the particular field or persons with considerable experience of technology more generally. Equally, the patent system depends upon an elaborate balance between courts which apply the law on infringement and validity after grant and examiners who handle applications in the light of interpretations of the law. Between them is a symbiotic relationship which requires experience to appreciate" (p 88).

49. There was general support for some form of pan-European patents court or courts.

Basic Structure

50. Sir Hugh Laddie said that there should be a court of first instance and an appellate court both with Community-wide jurisdiction (QQ 215-6). Just having a European court of appeal for patents was unattractive. The absence of a European-wide court of first instance would create immense problems for the European court of appeal: "you would still have the same sort of problems as I see we have at the moment, having, importantly, very different procedures, very different ways of assessing evidence, in many respects different forms of relief about what damages you should give and so on and so forth, all tunnelling into a single court of appeal, and I can see that causing problems". The procedures of the national courts feeding the European appeal court would require standardisation of such matters as procedures and rules of evidence in the national courts at least as regards patents, else problems like the Italian torpedo would remain (QQ 216, 222).

51. Sir Robin Jacob thought that securing the necessary degree of harmonisation of procedures and remedies for national courts to feed into a European appeal court was "a colossal challenge" but not impossible if absolutely necessary. Sir Nicholas Pumfrey was not so confident and pointed out that patent actions frequently did not stand on their own but were often mixed with other infringement actions (including copyright, unregistered designs, utility models and misuse of confidential information): "If you are looking to have one set of procedures for patent litigation you will end up requiring one set of procedures across the whole field of what is loosely called intellectual property" (Q 218). Judge Brinkhof, however, said that there was good experience (in the Community and in the Benelux) of judges working together to find solutions for such problems (Q 219). Both Sir Robin and Sir Nicholas said they would prefer no change to the "half-way house" of national courts with Community-wide jurisdiction with a right of appeal to Community court of appeal. They did not believe that would be acceptable to industry (QQ 223-7).

52. Both the TMPDF and the CBI wanted a Community patent court operating as a court of first instance. This court should be centralised but should also be peripatetic so that it could sit in the country of the applicant in the proceedings (Q 176). The CBI thought that the court should also have an appellate jurisdiction before a different panel of judges, with appeals on points of law only to the European Court of Justice (p 32). CIPA supported the establishment of a "Common Appeal Court", staffed by experienced judges from national courts, to adjudicate on patent validity and infringement for the whole Community. If it were possible that court should also operate at first instance (p 13, Q 76). LES had proposed a Community Court operating at the appeal level. Mr Cannon said that LES was not opposed to the court operating at first instance but had thought that for practical considerations it would have to be at appeal level (Q 77).

Relationship with existing Community Courts

53. The TMPDF saw the CFI as the first rung of a Community patent court system court (Q 177). The IPBA envisaged the CFI being the (first) Court of Appeal, though that role was dependent on the co-option of judges with patent experience (p 101). The Law Society also thought that if the appellate court was to be the CFI it must be composed of competent patent judges and have a wide jurisdiction over the EPO and national courts. If this were not possible, the Luxembourg Convention should be amended to achieve such a court (p 106). Professor Cornish also expressed concern about the ability of the existing CFI to handle patent appeals regularly. But he said that the possibility of making the patents appeal court a special chamber of the CFI should be kept alive (p 88).

54. Sir Nicholas Pumfrey thought a separate court would be better than an adapted CFI, though Sir Hugh Laddie thought it was a matter of terminology: "If you could get a separate chamber of the CFI to do what we want it to do, then I do not care whether it is called the CFI or not" (Q 231). Sir Robin Jacob thought there would be difficulties in using the CFI, in particular as regards the extent of any appeal therefrom to the Court of Justice. He doubted whether the senior court would want the role (Q 232). The Patent Office said that there was a question to be considered carefully as to whether the appeal mechanism would be effective if it were restricted only to matters of law, since in patent actions issues of fact and law can be closely linked (Q 275).

Staffing, workload, costs

55. There was a general consensus that any Community or pan-European Patent Court should be staffed by experienced judges. Sir Hugh Laddie suggested that the court of first instance might be manned on a temporary basis by a panel of judges from the national systems who have expertise in patent matters (Q 216). Sir Robin Jacob had estimated the number of judges presently deciding patent cases and considered that such a proposal was feasible (Q 220). Professor Cornish accepted that staffing the new court from experienced national judges might be a temporary solution, which would permit a degree of experimentation and provide some flexibility, but doubted whether such a body would be cohesive enough to establish an acceptable reputation (p 88).

56. The Patent Office said that it was necessary to consider the ability of a supranational court to deal swiftly and effectively with what could be a very heavy caseload if it operated at both first instance and appeal levels and took the bulk of the work of national patent courts in Europe. The cost and simplicity of its procedure were also important factors (Q 274). Sir Hugh Laddie expressed concern about the potential costs and volume of cases for the new court: "If you are talking about a court having jurisdiction over all patent disputes for the whole of the Union you are talking about a fairly large workload and it would mean having one or more courts available in there as sedentary or peripatetic and the cost burden on the party would be significant". The court would also have to be available to deal with emergency applications at reasonable cost. Sir Hugh saw organisational problems in achieving that. The question of the number of judges needed depended to some extent on how likely the new court was to give applicants what they wanted and how cheap and quick its procedures were (QQ 216,220). Sir Robin Jacob said that account should be taken of changing technology: "I believe that it will be possible to operate this court sometimes without its ever convening except electronically" (Q 221).

(c) Other Defects

(i) Exhaustion of rights

57. A number of witnesses expressed concern over the possible implications for parallel imports and the doctrine of exhaustion of rights developed by the European Court of Justice.[7]

[7] The doctrine can be traced back to the Court's ruling in Case 78/70, *Deutsche Grammophon*: [1971] E.C.R. 487. The Court has drawn a distinction between the existence and exercise of intellectual property rights, Community rules such as those relating to the free movement of goods(Article 30) only impinging on the latter but not the specific subject matter of the relevant intellectual property right. There have been a number of cases in which the Court has

Under that doctrine, goods which have been placed on the market by or with the consent of the patentee must be allowed to circulate freely. At present, the failure to take out a patent in one Member State does not imply consent by a patent-holder in another Member State to the manufacture of the patented goods in the first State and their circulation in the second.[8] Mr Burnside referred to this as the "holes in the basket" problem: "the Commission used to "threaten" that if companies did not take out patents throughout the European Union then the end result might be that goods would flow freely from an unpatented country to a patented country" (p 86).

58. LES said that the Community-wide patent should not change the present approach: the patentee's rights were not exhausted by the sale of a product in a Member State in which there was no patent protection in the absence of real consent. Consent should not be inferred where the patentee had chosen not to obtain or maintain the patent (p 19, Q 95). Mr Connor, for LES, said that there was a school of thought in Germany which said that was implied consent(Q 94). Sir Nicholas Pumfrey conceded that there was a respectable academic argument but added: "One's feeling is that if the question is ever referred to the ECJ, it will receive a dusty answer"(Q 249). However, a number of witnesses, including the TMPDF and the CBI, recommended that any legislation should make it clear that the existing rules of exhaustion were not to be widened in favour of an infringer following the introduction of a Community patent (p 31, Q 124).

(ii) Compulsory Licensing

59. The TMPDF said that the Luxembourg Convention had not dealt with the issue of the different regimes in Member States for compulsory licensing. This could cause problems in the administration of a portfolio of patents throughout the Community (Q 125). The CBI identified the similarity, in the context of a Community patent, of the potential problem to that relating to the exhaustion of rights. Mr Nott said: "If compulsory licences were to be granted on a Community basis under a Community patent, that could effectively destroy the benefit of the patent to a small manufacturer in a single country because a major competitor in another country who had got a compulsory licence would then be able to sell his goods throughout the Community" (Q 132).

(iii) Prior Use

60. When the Agreement relating to Community Patents was signed in 1989 the signatory States resolved to revise the Agreement to provide for the position of parties who had used or possessed an invention the subject of a Community patent before the application for that patent. To date there has been no action on this matter. The Green Paper asked if such action was necessary. The TMPDF said that the problem was that the circumstances under which a prior user could continue to work the invention despite the grant of the patent differed from one country to another (Q 127). CIPA also said that the absence of a provision in the Luxembourg Convention dealing with prior use rights was a defect. In their view, under a unitary patent system any prior use should extend to the whole Community (p 15, Q 88). The CBI said that a prior user should be entitled to develop the prior use right which he has obtained within the full scope of the relevant patent and to transfer that right of prior use to any third party (p 31).

(iv) Renewal Fees

61. A number of witnesses identified high renewal fees as a potential weakness of the existing Convention. They were critical of current fee levels under the EPC regime. For the CBI, Mr Nott said: "We feel that the fees are very much higher than they need to be, not least because they go to a large number of patent offices. If there were to be a single Community patent run from a single European Patent Office, we would hope and expect that the fees would be able to be reduced

considered the application of the doctrine to patents. In Case 15/74, *Centrafarm* v. *Sterling Drug*: [1974] E.C.R. 1147, the Court described the specific subject matter of a patent as "the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements".

[8] But if the patentee himself placed the goods on the market in the second State he could not invoke his patent rights to oppose their importation into the first: Case 187/80, *Merck* v. *Stephar*: [1981] E.C.R. 2063.

substantially, coming down to the sort of level that exists in America and Japan" (Q 195). The TMPDF said that it was no answer to say that the fees would be no more that the sum of current fees in Member States, since the present system provided the flexibility to maintain patents in only those States of real interest (p 35). The Law Society compared the position in the USA, where no renewal fees were charged (p 105). CIPA said that the patent system ought to encourage people to take out patents to protect their investment in research and development. If that could be done by keeping official fees down at an early stage, by cross-subsidy from renewal fees, that would be a worthwhile endeavour. CIPA also took the view that part of the renewal fees of a Community patent should be allocated to the national patent offices whose continued existence for the foreseeable future CIPA supported (QQ 85, 86).

62. The BIA said that though many of its members were SMEs it did not see the introduction of reduced fees for SMEs as being particularly helpful or desirable. Fees were not the most significant cost in an international patent application filing programme and, in the biotechnology sector, the US experience showed that inventions were often the subject of a collaboration with major companies which precluded any fees reduction. The BIA said that they would rather see the moneys spent on recruiting and training staff in order to improve the speed of search, examination, opposition and appeals procedures: "reducing the long period of uncertainty is much more valuable than reduced fees" (p 28).

FURTHER ACTION—THE CHOICE OF LEGAL INSTRUMENT—CONVENTION OR REGULATION

63. The CBI supported the notion of a Community-wide patent system (p 31). But, the TMPDF said, Community action had to be aimed at providing a system with real practical advantages for all industries. The existing national and European patent systems should continue, providing a choice for users (QQ 111, 122). Zeneca said that this would provide the flexibility required by both large and small industries. Dr Smith said: "we are not talking about a replacement; we are talking about an additional opportunity" (p 37, Q 120).

64. Witnesses were divided on the best way forward. CIPA believed that although a regulation would allow a new system to be brought into force more rapidly than a Convention, there was a possibility that it might be brought in with some defects still unresolved. CIPA saw greater merit in a new international convention. In their view, it could provide a greater degree of harmonisation (by allowing, for example, the inclusion of non-EU States for which the EPC caters) and also enable the creation of an appropriate court system. A Regulation might be brought too quickly and without adequate preparation (pp 15, 17, QQ 76,97). Zeneca also favoured a Convention (p 38). Having regard to the need to provide satisfactory judicial arrangements, Sir Nicholas Pumfrey thought that a convention was the "inevitable and preferred route. It is the preferred route to have another Treaty to establish a complete jurisdiction, because if that has to be done ... it has to be done properly" (Q 229).

65. The Patent Office believed that it would be better to have a regulation. It would mean a common start date for Member States which was consistent with a single market measure (Q 277). The TMPDF said: "A free standing Convention would be too inflexible to adjust when developments in the approach to patentable technology call for adjustment, would probably be very difficult to get ratified and would be awkward to accommodate in enlargement negotiations" (p 36, Q 186). The CBI also favoured a regulation. It would not be dependent on ratifications to take effect and would be easier than a Convention to amend to take account of changing circumstances (Q 187). The Law Society of Scotland said: "A regulation had been used for the trade mark system and no reason could be seen why it should not work for patents" (p 107). IPLA also referred to the experience on trade marks. Attempting to achieve unitary patent protection by convention had not been successful. The Community Trade Mark Regulation showed what was possible under the EC Treaty (p 103). The IPBA said that a regulation would have the advantage of flexibility if changes proved to be necessary. They accepted, however, that a regulation had limitations as regards the establishment of a European Patents Court. They therefore advocated what they called a middle route, "using a Regulation for the substantive law and procedure and a Convention to establish the necessary judicial arrangements" (p 101).

66. Professor Cornish considered that Article 235 of the Treaty gave the Community a legal basis for action and thought that "As the means for altering authority over the future European patent system, and for placing it under an acceptable management structure, such a Regulation seems the only sensible way forward". He also pointed out the implications for the Community's external competence: "One consequence [of a Regulation] would be a simplification in Europe's dealings in patent matters with the rest of the world, whether this consists in the negotiation of treaties at the international level, or the conduct of discussions with major trading countries, such as the US and Japan" (p 89). The Patent Office acknowledged that there was a political issue for Ministers here (Q 287).

THE IMPLICATIONS FOR THE DEVELOPMENT OF PATENT LAWS AND POLICY AT NATIONAL AND INTERNATIONAL LEVEL

67. The CBI also said that further harmonisation was desirable, and necessary on the right terms, but not inevitable (p 32). Mr Nott pointed to the different procedures and arrangements for patenting in the United States and Japan and said that some harmonisation at the international level might be helpful. He thought that that was probably a long way in the future (Q 202).

68. IPLA said that further harmonisation in both substantive patent law (such as in relation to "special defences" to infringement, and available relief) and procedure (IPLA strongly advocated cross-examination) would at least be desirable, and might be necessary, if a truly effective unitary patent system was to be achieved (p 103). For CIPA, Mr Gold said that one of the aspects of the Community patent which had not received sufficient attention was the need to harmonise national litigation procedures "to ensure that there is technical efficiency at all levels of the process; that there is roughly similar speed; roughly similar remedies; damages would be roughly at the same level". All these matters were currently replete with uncertainties (Q 73). CIPA did not believe that other European countries would accept the English approach to discovery and examination of witnesses. Mr Gold said: "I hope there could be a process whereby we would each realistically take the best features of each other's procedures, and some sort of compromise would emerge which would be the least unhappy compromise" (Q 103).

69. LES thought that harmonisation at European level might influence patent systems elsewhere, in particular in the United States and Japan, and result in greater international harmonisation. This, in LES's view, would be desirable, though not inevitable in the light of the experience of the European Patent Convention (p 19). A number of witnesses pointed to the desirability of wider international harmonisation. The Law Society of Scotland said that there was a need for harmonisation at a worldwide level "on what is or is not patentable and on the point at which information on patents is published" (p 107). Zeneca also said that the Community must have the same criteria for patentable subject matter as enjoyed by the USA and Japan. Further harmonisation of procedure was also to be encouraged (p 38). In particular there was, in CIPA's view, a need for US laws with their "first to invent" system to harmonise with those of the rest of the world which have a "first to file" system, though neither CIPA nor LES was optimistic that the Americans would accept any change (p 16, Q 105).

70. The TMPDF expressed similar views and drew attention to the fact that Member States already worked together on intellectual property issues, particularly in international fora such as the World Intellectual Property Organisation (WIPO) and the World Trade Organisation (WTO) (p 36). The Patent Office favoured harmonisation at a global level. The work was, therefore, best left to WIPO, which was presently working on a Patent Law Treaty aimed at limiting the formal requirements which patent offices across the world might require of applicants (QQ 269, 276).

RELATIONSHIP BETWEEN ANY COMMUNITY INSTRUMENT AND THE EUROPEAN PATENT CONVENTION

71. It was generally accepted by witnesses that there would have to be links between the two systems. For the Patent Office, Mr Hartnack said: "in theory the Community system could be administered ... by national patent offices within a harmonising regulation. As a matter of practicality, I think we should assume it will be administered by the European Patent Office". He

did not expect the additional costs to be enormous. In theory it would be possible for the EPO to subcontract the work to national patent offices but it was doubtful whether other Member States would agree to that (QQ 268, 282-3). CIPA acknowledged that the EPO had been a commercial success in terms of the numbers of applications it had received. It was generally assumed that the EPO would deal with applications for Community patents. Mr Lees said: "it was written into the original 1975 version and at this date it would seem rather foolish to start setting up some totally new organisation" (QQ 101,102).

72. The TMPDF said that the EPO should carry out the examination and grant of a Community patent in accordance with the procedures of the European Patent Convention. They also thought the substantive law on patentability should be the same in the two systems (p 36). The Patent Office recognised that it was important that there was consistency between the European patent and the Community patent (Q 274). The Law Society said that it would like to see the Commission taking a much more direct part in controlling the operations of the EPO "which is singularly slow to accept criticisms of its practices, still less to improve them" (p 106).

73. The Green Paper suggests that an applicant for a Community Patent should have the option to convert its application into a European patent application, designating some but not all Member States. A number of witnesses agreed that there should be provision for converting from one form of patent to another. Mr Johnson thought that there should be maximum flexibility in permitting the transfer of applications and patents between the national and European systems and any future Community patent system. There would have to be a time limit for such conversion, possibly two or three years from grant (p 90). Other witnesses considered that conversion should only be possible before the grant. The TMPDF thought that even later conversion might be allowable in order to correct some invalidity in a Community patent (Q 194). The Law Society drew attention to the need to protect third parties, particularly in the case of conversion from a European Patent to a Community patent; third parties should be entitled to assume that the applicant has decided not to seek protection in a Member State that was not originally designated (p 106). The Patent Office recognised that this was a potential problem (Q 279).

PART 3 OPINION

74. It is over ten years since the Committee last looked at the question of the need for a unitary Community patent. The 1975 Convention had not (and still has not) been ratified by all Member States - both Denmark and Ireland had constitutional problems - and a number of technical issues required further work. A conference had been held in Luxembourg in December 1985 to try to take matters forward.Various amendments and additions to the 1975 Convention had been agreed in principle. In its 1986 Report, *A European Community Patent,* the Committee examined the state of the negotiations, the need for a uniform Community patent and the possibilities of overcoming the outstanding differences. It concluded that the setting-up of a Community patent system operating uniformly throughout the Community and subject to ultimate adjudication by a common appeal court would be of major benefit to commerce and industry. Such a system would contribute materially to the smooth operation of the Single Market. The Report called for the introduction of a Community patent "without further delay". If all Member States could not agree, that should not hold up the rest of the Community.

75. More than ten years later we are little further on. The Luxembourg Convention has still not entered into force, notwithstanding the important revision work completed by an inter-governmental conference on the Community patent in 1989. It seems unlikely ever to do so. The recent action taken by the Council and the Commission to revive the issue of a Community patent has been generally welcomed. The Green Paper has rekindled an interest in the subject in the minds of users of the patent system, national, European and world-wide, and their Governments. Though the benefits are not always quantifiable there seems little doubt that patents are a valued industrial and economic tool, an important adjunct to research and innovation. Patents are used by and serve industry in various ways, depending on the sector concerned. They are not the preserve of large firms. Individuals and SMEs also use the patent system.

76. Patenting is, however, an expensive business. The protection of the invention is buttressed, under patent laws, by an act of a public body, namely the grant of a patent. Obtaining a grant involves the payment of fees, official and professional. Moreover, patents once obtained have to be maintained (by payment of renewal fees) and policed, if necessary through the courts. The increasing expansion and inter-relationship of markets world-wide may compel industry to seek patent protection in many more countries. The notion of having one patent valid in fifteen States, for the whole Single Market, is therefore attractive. Our witnesses identified the potential advantages in terms of cost savings, the simplification of regulation and reduced complexity. Consumers should also benefit from improved and cheaper products.

77. It was, however, the uniform response of witnesses that if the Luxembourg Convention came into force, thereby making it possible to obtain a Community patent, there would be few, if any, takers. The reasons for this are essentially twofold: the requirements for translations are burdensome and costly; and, potential users do not have confidence in the judicial arrangements. These two basic issues dominated our enquiry. It is clear that satisfactory practical and political solutions have to be found for both if the Community patent is to be a reality and bring about the benefits described above.

Language/translations

78. The cost of translating patent specifications is a major element in the overall cost of protecting an invention in more than one country. The Green Paper gave some figures for the cost per page of translations. A table prepared for the Committee by Zeneca and other statistics produced by the EPO helped to show those costs in relation to the total costs borne by the applicant for a patent in the current European system. The EPO's study shows that, depending on the number of national patents designated and therefore translations needed, the cost of translation may amount to some 30%–60% of the cost of obtaining patent protection in the Community.

79. Any Community patent has to be affordable. If everything had to translated into all official Community languages then we doubt whether the proposal would be sufficiently attractive to users

and whether, therefore, it would be a practicable proposition. The burden of the costs of translation would fall hardest on small firms (who, according to the EPO's study, are more likely to be seeking coverage throughout the whole of Europe). Even large firms, who also have budgets, might be dissuaded. Industry would certainly weigh up the advantages and disadvantages of a Community patent compared to a bundle of national patents. A European patent covering the major industrial countries may be good enough. Witnesses pointed out that the translation problem can only get worse with Enlargement. Costs would increase if additional translations were required, making the Community patent less attractive to users.

80. In 1986 the Committee took the view that it was essential to limit the extent to which a Community patent must be translated. The Committee believed it was reasonable to expect that translations of the claims, which define the scope of the patent monopoly, should be available in a national language of each Member State. But to require the translation of the description of the invention into all languages would pose a serious threat to the viability of the Community patent. The Committee was impressed by evidence (which was reiterated by witnesses in the current enquiry) stressing that translation of a complete specification at the time of grant of the patent comes too late to be of real value to those most interested in the technology. The Committee took the view that Member States should not be able to insist on the provision of any translations apart from translations of the claims. If this could not be agreed, the best compromise would be to require translation into the official languages of the EPO. The Committee said that any moves to allow every Member State to demand translation of the whole specification into a national language at grant should be firmly resisted. (paras 51-52)

81. The Green Paper canvassed views on a number of approaches to the translations question. However, most of our witnesses favoured a more radical, "English only", solution, under which a party could file the application in any of the Community official languages but thereafter English would be the sole working and official language of the Community patent. This solution has a substantial measure of support from European industry generally. That is clear from the evidence given directly to us as well as the submissions made to the Commission at the Luxembourg hearing. The Commission's statement of Conclusions of that meeting states that "a large number of users' representatives on the side of industry support a radical solution. This consists of using only one language for the granting procedure, with no translation of the granted patent afterwards". Diplomatically, the Commission does not identify the "one language" concerned.

82. The Committee would have no hesitation in supporting the "English only" solution. It would be simple, cost effective and reflect the current practice increasingly to use English in technology and patenting. Under any Community regime we would anticipate that the large majority of applications and grants would, as is the case for European patents, be in English, if only because of the substantial number which could be expected to come from the United States and Japan. We have doubts, for the reasons given by witnesses, that it will emerge from the Commission as the solution for the Community and even if it did whether it would ever be politically acceptable. It would be a major step for other Member States to accept a regime under which their citizens could file in their native (official) language but would thereafter have to work in English.

83. The Green Paper rightly describes the language question as "a thorny problem" and it is noteworthy that when soliciting views from interested parties on the language question the Commission asked for "realistic solutions". We share the view expressed by the Patent Office that some form of compromise on the language question will have to be struck. One possibility is to limit the number of official languages to three (English, French and German). The precedent is the EPO, though as witnesses pointed out it is not completely apt because a State may still require translation of the specification into its official language when the European patent is registered in the national patent office. It would be a solution based more on historical political considerations than current practical ones. Apart from being the working languages of the EPO, the three languages as a group have no other particular supremacy or importance in relation to technology and invention. We could nevertheless accept the three EPO languages as a compromise. However,

any attempt to increase the number, for example from three to five (the number of working languages for Community Trade Mark purposes), should be strongly opposed.

84. But even three languages might not be any more acceptable to all Member States and their Parliaments than one. The argument that the individual citizen should be able to read in his or her language what he or she may not do, though in practice remote from the realities of life even among smaller firms, has a strong popular appeal. We are bound to acknowledge this, even though all the relevant information may not be available until late in the patenting process and in practice those with any substantial commercial interest will read the documents in their original language or obtain their own translation. We wonder, therefore, whether other Member States will in fact be prepared to forego their citizens' language rights. A compromise whereby some minimum amount of information about the patent is published in every language will have to be accepted. Since such a compromise will be based not upon practical grounds (which plainly point to an English only solution) but upon political expediency, the Committee finds it difficult to say how much translation there should be. One possible compromise would be to allow the application to be submitted in any official language, to require the claims to be translated into all official languages but thereafter to provide for the use of English as the sole working and official language of the Community patent. In the end, the question is whether the cost of translation can be kept low enough to make a Community patent a viable option for industry. If it is too high, it will not be able to compete with the available alternatives of EPO or national grants.

Judicial arrangements

85. It is a feature of a unitary patent that it can lapse, be transferred or, particularly important in the present context, be revoked as a single whole. If the Community patent is to succeed it must be supported by judicial arrangements in which industry and users have complete confidence. That is not the case with the arrangements existing under the Luxembourg Convention. These provide that, in addition to opposition proceedings before EPO Boards of Appeal, national courts would in effect act as Community courts and deal with questions of validity. A new court, COPAC, would have a central appeal function and give interpretative rulings. Many witnesses could not accept the risk that a patent could be invalidated by *any* national court. Their concern is that the judge might not have sufficient knowledge and experience of patents.

86. The Green Paper favoured allowing the EPO Boards of Appeal to handle all validity questions, with a right of appeal to the existing Community Courts, *i.e.* to the Court of First Instance and then, on points of law only, to the Court of Justice. Witnesses were, however, critical of the system and actual handling of appeals under the EPC. Further, the Green Paper proposal would have the consequence of separating infringement actions, which would remain with national courts, from validity questions. The evidence we received on this point was unanimous in insisting that infringement and validity issues, which are in practice almost invariably inter-related, should be dealt with together by one and the same forum. We agree that, when it is necessary to do so, the two matters should be capable of being dealt with together. The Committee agrees with witnesses that the Green Paper's proposal as regards the use of the EPO boards of appeal is not the way forward. It appears to have no chance of acceptance by industry.

87. There have been suggestions that the Boards of Appeal of the EPO could be strengthened by the addition of patents judges from Member States, perhaps on a temporary and rotating basis. This proposal would have much to be said for it as an improvement in the service provided by the EPO, even if there was no question of introducing a Community patent. But the Committee do not think that the EPO, even in this form, could provide a judicial structure for the enforcement as well as the grant of Community patents. It could not provide a court of first instance for infringement proceedings and it is doubtful whether it could operate even as an appellate court in such cases without a substantial change in its procedures and culture. In addition, it is hard to see how the EPO, as a non-Community institution, could be fitted into the judicial system of the Community. The main advantage of bringing national patent judges onto the Boards of Appeal of the EPO would be to provide a model of a multinational European patent court which could be used by the Community.

88. The solution preferred by our witnesses was to have a Community Patent Court operating at both first instance and appellate levels. Those courts would be staffed by experienced patent judges from across the Community. It is a bold and ambitious approach which in principle we support. But we do have doubts as to whether it is feasible for a new system of patent courts for the whole Community to be set up and made fully operational and effective from as it were a standing start.

89. To set up a system of Community Patent Courts, with the necessary and appropriate judges and other staff, premises and, not least, rules of procedure, will require a massive practical effort and goodwill on all sides if it is to work. It can, we believe, be done if there is the political will backed up by a substantial commitment in terms of resources. We are not optimistic about the prospects of this being achieved except over a fairly long period. On the other hand, a system which gives the national courts of any Member State the power to revoke a Community patent with effect throughout the Community is likely to be regarded as making them too vulnerable to compete with an equivalent bundle of national patents granted by the EPO. The Committee thinks it is unlikely that this perception by industry would be much diminished either by restricting the number of courts upon which any Member State can confer jurisdiction over Community patents or by providing a right of appeal to the Court of First Instance or some other European court. Of all the practical difficulties involved in creating a Community patent, the judicial system is the one upon which it most likely to founder.

90. We do not go further into the detail about the judicial system in this report but there is one matter to which we believe it is necessary to draw particular attention. Under the Luxembourg Convention, which, as mentioned in paragraph 85, created COPAC, there remained a substantial role for the Court of Justice.[9] A major constitutional question which will have to be determined at the outset is that of the relationship of any new Community Patent Courts to the existing Community Courts.

91. One possibility is for the CFI to take on the role of one of the Community Patent Courts. It might do this by way of a new specialised chamber staffed by judges experienced in intellectual property matters. Its jurisdiction and procedures would need to be amended to enable it to exercise the full functions of a court of first or second instance in patent cases—it would not simply have the role of reviewing the legality of the decisions or other acts of another institution (as is its general function, including its responsibilities under the Community Trade Mark Regulation[10]). Were the CFI to take on responsibility for patent cases affecting Community patents for the whole of Europe it would be a substantial addition to the workload of that court. Leaving to one side the pressures which the court is currently suffering (we examine these in our contemporaneous report, *The Court of First Instance: the Single Judge*) adding patents would have a profound impact on the character and working of the court. We do not agree with those who have suggested that the issue whether there should be a new court for the Community patent or whether a specialised chamber of the Court of First Instance should have the jurisdiction is only a question of nomenclature. There will, in our view, be substantial implications for the Community's judicial architecture.

Other issues

92. In addition to the problems of translations and of judicial arrangements witnesses identified a number of other matters concerning the present Convention and with which they had difficulty. We deal with these briefly below. One of them, renewal fees, raises wider issues.

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[9] COPAC could request a preliminary ruling whenever there was a risk of inconsistent interpretation between the CPC and the EC Treaty. If a Member State or the Commission considered that there was such an inconsistency resulting from a decision of COPAC, it too could seek a ruling. Certain national courts acting as Community patent courts could also ask the Court of Justice for a ruling on the interpretation of the Convention's provisions on jurisdiction.

[10] The Court of first Instance has jurisdiction to hear appeals under the Community Trade Mark Regulation. Appeals are dealt with first by Appeal Boards within OHIM. It is far too early to say how that is going to work. Cases have yet to emerge from the appeal process within OHIM.

Prior use, compulsory licensing, exhaustion of rights

93. Concern was expressed by witnesses about uncertainties relating to the extent of rights to continue prior use of an invention protected by a Community patent and also as regards the grant of compulsory licences in respect of such inventions. The national laws of a number of Member States preserve prior rights of use and confer powers of compulsory licensing. The Luxembourg Convention (Articles 38 and 46 respectively) provides that national rules should be applicable to a Community patent in so far as it has effect in the particular Member State.

94. Both these matters affect the scope of the right and it is pertinent to question whether they should be left to (potentially divergent) national laws. The Committee agrees with witnesses that, in a unitary Community patent system, prior use rights should in principle extend to the whole of the Community. As regards compulsory licensing, it should be made clear that the patentee's rights under a Community patent are not exhausted in one Member State by the grant of a compulsory licence of that patent in another Member State. In the absence of the Community patent instrument (whether convention and/or regulation—see below) itself providing a compulsory licensing regime for Community patents, it needs to be considered further whether there should be appropriate harmonisation of national laws.

Renewal fees

95. In costs terms, the decision to apply for a Community or European patent may not depend simply on the number of translations (discussed above). Other factors, including renewal fees, have to be considered. It is to be expected that any Community system will be self-supporting but there is concern that it may be more than self-supporting and that renewal fees will be regarded as a source of general revenue. Witnesses expressed concern about the possible high level of fees. The flexibility a patentee now has with a bundle of national patents, to decide which to maintain and which to allow to lapse, will not exist with a Community patent. The level of renewal fees will have an effect on the success of the system, particularly if they were to exceed the sum of the renewal fees of more than the national patent offices of the larger Member States or of the average number of national patent offices designated in European patent applications. In 1986, we took the view that it was imperative for an agreement on renewal fees to be worked out which was advantageous in comparison with national renewal fees and would make a substantial number of applicants to the EPO opt for the Community patent rather than a national "bundle". As we have said above, the Community patent must be affordable.

96. The question of renewal fees has, however, another dimension. This concerns how the revenue from applications for Community patents will be divided. The current position is that renewal fees on patents in force in the United Kingdom, whether granted by the Patent Office or by the EPO, are used to support directly the national patent system and also, indirectly, the European patent system[11]. The Green Paper proposed that the body in charge of the Community patent system (this will almost certainly be the EPO) should retain all the different fees paid by users. It also questioned whether it was appropriate for renewal fees on European patents to be used partly to finance national patent systems. Witnesses uniformly spoke of the need for national patents and European patents to remain available for the foreseeable future. If the Community patent system were introduced in such a way that the current arrangements were modified as suggested in the Green Paper, the position of the national patent system might be affected detrimentally. The Government pointed out that the Commission has yet to assess the financial implications of its proposals. In the view of the Committee such assessment should be a matter of priority and urgency.

[11] Currently 50% of the renewal fee is passed on to the EPO as a contribution towards its costs.

Convention or regulation?

97. The Green Paper noted that the European patent system in Europe (*i.e.* the EPC and the Luxembourg Convention) was set up by means of international agreements. This was, according to the Commission, because the Community's competence in the field was then not clearly established. The legal position, it said, had changed and the Green Paper raised the question of the establishment of a Community patent system by way of a regulation under Article 235 of the EC Treaty. Such a regulation would require unanimity but would have the advantages of having a fixed date of entry into force and being simpler to deal with in future enlargements of the Community since it would automatically be part of the *acquis communautaire*.

98. Witnesses generally accepted that the Community had the necessary competence under the EC Treaty. The question, we agree, is not now a matter of dispute. The Court of Justice has held that the Commission is competent, in the field of intellectual property, to harmonise national laws pursuant to Articles 100 and 100a and may use Article 235 as the basis for creating new rights superimposed on national rights, as it did in the Community Trade Mark Regulation.[12]

99. On the question whether further Community action should be by way of regulation or convention, the majority of witnesses supported the idea of a regulation under Article 235 as the basis for any Community patent regime for the reasons given in the Green Paper. While the Committee agrees that those reasons are valid ones, there are two further factors affecting the choice of the appropriate legal instrument. First, there are the implications for the judicial arrangements. Use of a regulation alone would seriously limit the opportunities for innovation. A regulation would enable existing mechanisms to be used (the Green Paper's suggested use of the EPO Boards of Appeal and the Court of First Instance for questions of validity—a similar structure has been adopted in relation to the Community trade mark) but would not permit the creation of a new Community patent court or courts. For this there would have to be a Convention and/or revision of the Treaties. As we have indicated above the creation of a system of supranational pan-European Community Patent Courts will inevitably have major implications for the Communities' judicial architecture.

100. Secondly, it is necessary to consider the effects as regards the external competence of the Community. As the Court of Justice has made clear, the existence of provisions in the Treaty, in particular Articles 100a and 235, which give the Community power to act in relation to intellectual property does not confer exclusive competence on the Community[13]. The exercise of those powers by the adoption of a regulation would, however, increase the competence of the Community in international fora such as the World Intellectual Property Organisation (WIPO) and the World Trade Organisation (WTO) and consequently restrict that of the Member States. The Patent Office acknowledged that this was a question to which Ministers would have to give some attention. The Committee agrees.

101. Finally, it must be remembered that proceeding by regulation, rather than convention, does not overcome the major political issue of securing agreement on the proposal, particularly on the sensitive matter of the use of languages and translations. Unanimity will be required. We do not underestimate the difficulties ahead.

FURTHER HARMONISATION—THE EUROPEAN PATENT

102. Patent law is an area where there is already a substantial degree of harmonisation at both international and European level, from the Paris Convention of 1883 through to the GATT/WTO Agreement on trade-related aspects of intellectual property rights (TRIPS). Action at Community level has so far been limited to the creation of supplementary protection certificates for

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12 Case C-350/92, *Spain* v. *Council*: [1995] E.C.R. I-1985, at para. 23.

13 *Opinion 1/94*: [1994] E.C.R. I-5267. The matter arose in relation to the definition of the extent of the Community's and the Member States' participation in the TRIPS Agreement.

pharmaceutical and plant protection products.[14] Witnesses were in favour of further harmonisation, a number expressing a preference for that to be done at a global rather than a European level, on such fundamental issues as what should be patentable. Reference was made, in particular, to the current work of WIPO and the WTO. At a European level it was hoped that any Community patent might lead to a greater harmonisation of procedural rules especially in relation to the litigation in patent cases.

103. The Committee supports in principle the greater harmonisation of patent laws and procedures and considers that in a number of areas, such as the definition of patentability and simplification and co-ordination of filing procedures, that work may best be carried forward at the global, rather than the European, level. This viewpoint reflects the importance of innovation and the legitimate protection of inventions by patents in *all* markets and thus the desirability of taking action with worldwide effect.

104. At the European level it is to be expected that any Community patent will have an effect on national patent laws and practice, drawing them ever closer together. One area where it will, in our view, be necessary to co-ordinate both substantive and procedural development is that of the relationship of any Community patent to the European patent. It is generally accepted that the EPO will administer Community patents and be responsible for their grant, while at the same time carrying its responsibilities in relation to the European patent. We see problems ahead if the substantive law of the two patents and its practical application were to drift apart. Some have argued that the Community should mount a takeover bid for the complete European patent regime. We do not advocate that. But there must be an adequate mechanism in place to ensure co-ordination of substantive law and procedure as well as consistency in individual decision-making.

Conclusion

105. The Committee believes the Community patent, a single patent which is valid throughout the Community, would have advantages over the present system of European and national patents. The success of the system depends firstly, as we said in our 1986 Report, on keeping the costs down. A practical solution has to be found to the question of the number and extent of translations. There must also be judicial arrangements which will command the confidence of industry. The Community patent has to be sufficiently attractive to industry and able to compete alongside national patents and the European patent. If not, it will remain a white elephant which no-one will want. It is clear to the Committee that there is substantial interest in and support for a Community patent within industry at the present time. A major political push and a preparedness to compromise on the language question are needed if the idea is to become a reality.

RECOMMENDATION

106. The Committee considers that the Green Paper on the Community Patent and the Patent System in Europe raises important questions to which the attention of the House should be drawn and makes this Report to the House for information.

[14] Council Regulation (EEC) No 1768/92 concerning the creation of a supplementary protection certificate for medicinal products, OJ L 182,2.7.1992, and Regulation (EC) No 1610/96 of the EP and Council concerning the creation of a supplementary protection certificate for plant protection products, OJ L 198, 8.8.1996. In our 4th Report 1993–94, *Patent Protection for Biotechnological Inventions*, we considered a proposal for a Directive, currently before the European Parliament, which, if adopted, would set out the conditions in which a patent may be obtained for a biotechnological invention.

APPENDIX 1

Sub-Committee E (Law and Institutions)

The members of the Sub-Committee which conducted this enquiry were:-

B. Anelay of St Johns
L. Borrie
B. Elles
L. Goodhart
L. Hacking
L. Hoffmann (Chairman)
L. Nathan
L. Plant of Highfield
L. Wedderburn of Charlton
L. Wigoder

APPENDIX 2

List of Witnesses

The following witnesses gave evidence. Those marked * gave oral evidence.

The Right Hon Sir William Aldous
The Association of the British Pharmaceutical Industry
* BioIndustry Association
* Professor Judge Jan J Brinkhof, Court of Appeal at The Hague
British Retail Consortium
Mr Michael Burnside
* The Chartered Institute of Patent Agents
* The Confederation of British Industry
Professor W R Cornish, University of Cambridge
Mr T L Johnson, Edward Evans & Co
I.P. Bar Association
* The Intellectual Property Institute
Intellectual Property Lawyers Association
* The Hon Messrs Justice Jacob, Justice Laddie and Justice Pumfrey
The Law Society
The Law Society of Scotland
* Licensing Executives Society
* The Patent Office, Department of Trade and Industry
* Trade Marks Patents and Designs Federation
* ZENECA

MINUTES OF EVIDENCE

TAKEN BEFORE THE EUROPEAN COMMUNITIES COMMITTEE
(SUB-COMMITTEE E)

WEDNESDAY 4 FEBRUARY 1998

Present:

Borrie, L
Elles, B
Goodhart, L
Hoffmann, L (Chairman)
Plant of Highfield, L
Wedderburn of Charlton, L
Wigoder, L

Memorandum by The Intellectual Property Institute

INTRODUCTION

We are grateful for the opportunity to submit evidence to the sub-committee. We respond by reference to the questions set out in Dr Kerse's letter dated 28 July 1997. We would be willing to respond to further questions or to attend a meeting of the sub-committee to answer questions and to clarify or to expand on points as required.

The Institute of Intellectual Property funds economic and legal research into significant intellectual property issues. It is based in London but its research can be done in principle anywhere. It aims to produce timely, relevant and authoritative research and to present messages from the research to policy makers. The Institute's funds come from research grants and from interested circles. It is also supported by the Patent Office. However, the views expressed in this paper should in no way be taken as reflecting the views of the Government or the Patent Office.

RESPONSE TO QUESTIONS

Q1. What is the value of patents to United Kingdom industry?

The principle behind the patent system is the concept that, in return for disclosing their inventions to the public by means of patent specifications, (so allowing the public to have access to the invention and, subject to the patent, to make use of that invention), inventive companies or inventors are given exclusive rights for a limited period of time to give them an opportunity to innovate based on their inventions, either directly or through licensing. Inventions, disclosure of inventions and innovation of patents based on inventions are encouraged by the grant of patents. Patents last for twenty years in Europe.

It will be appreciated that a patent does not grant a right to patentees to do anything. It merely gives them the right to exclude others from the claimed area of invention. Any necessary approvals from regulatory bodies, for example the European Medicines Evaluation Agency in the case of pharmaceutical products, must still be obtained.

The UK is creative but its success at innovation is lower than it ought to be. Patents are a major driving force in innovation. Consumers, as well as industry, would benefit greatly from cheaper and more effective patent systems in Europe. Increased innovation would lead to increased employment and prosperity. One element should be a unitary patent for the European Union.

Society benefits from a patent system which:

(a) grants patents speedily after proper examination;

(b) in which granting and maintenance costs are not excessive; and

(c) is reinforced by effective and adequately low cost litigation.

There are no conflicts between the needs of small and large industry. The only difference is that unreasonable costs, in granting and maintenance procedures or in litigation, can sometimes be borne by large industry, but are intolerable to SMEs. As a result innovation, to the benefit of consumers, and employment suffer.

Q3. *What would be the main advantages and disadvantages of patent protection covering the whole Community?*

The Institute agrees with the arguments in the Green Paper in favour of a unitary patent system in the Community. The main point is that innovation would be stimulated if it was possible to secure and maintain, at modest cost, a single, reliable, high quality patent having uniform effect throughout the whole Community. Consumers would benefit from improved or cheaper products. In addition employment and prosperity would be

stimulated. That such advantages stem from having sound patent systems is apparently not always understood by national governments.

There only would be disadvantages if a unitary patent was introduced in a fudged form in particular without a sound litigation system in place, without the translation issue properly dealt with and without preservation of the EPC and national routes for the foreseeable future.

Advantages within the patent system itself which, of course, manifest themselves in the stimulation of innovation, are explained more fully when answering later questions.

Q6. *Would the Community Patent System as devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratifications were made)?*

No. The Luxembourg Convention has serious defects, in particular the procedure for litigation and the cost of translations into all the Community languages.

What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)?

Judicial arrangements

The system proposed in the Luxembourg Convention is inadequate: too uncertain, too slow and too costly and the risks of poor judgments are too great.

The Institute cannot emphasize too much that sound judicial arrangements are crucial to the success of a unitary system and are much needed in the present systems in which patents are granted either by the EPC route or by national routes.

Legal certainty ought to be easier to achieve in a Community system than in the complex of national systems. Legal certainty is itself an important factor in reducing distortion of competition and achieving free movement of goods. Consumers and industry of all sizes need innovation, and innovation is hindered and distorted if decisions and remedies etc., on patent issues are going to turn on the country in which the patent is litigated. Faced by advice that a product does not infringe a competitor's patents in countries A, B and C but will infringe the exactly equivalent patent in country D, a firm interested in supplying the whole of the Community will not launch such a product. It may well go for a less innovative product for Europe whilst perhaps launching the innovative product in a market with less uncertainty.

Europe needs a quick, reliable system. Sound judgments and predictability, so that litigation can be avoided, are needed. These need to be coupled with adequately low costs, speedy procedures and effective remedies. Such a quality litigation system is essential to a unitary patent system.

A possible system could be a central, possibly peripatetic, collegiate Community Patent Court, composed of a panel of expert patent judges and including at least one judge from the state in which the action was started. Any such court would have to establish a common procedure and preferably common remedies. (Note that the adequacy of remedies is a major issue in relation to conformity with TRIPs.) If the costs of fighting an action before such a court are unacceptable to SMEs, then an option needs to be provided which is acceptable and can be used by large companies, who also have to be very cost-conscious. Such an option would have the incidental advantage that it could relieve a court of the type outlined of the pressure of the amount of litigation with which it might otherwise be confronted. It cannot be beyond the ability of man, certainly not of judges, to devise such an option.

On language, we can learn from the examples of other courts and tribunals. In the interest of lower costs, the language probably should be an official language of the country concerned or a language agreed by the parties.

The Institute considers that validity and infringement should be considered by the same court. The Institute has doubts whether the EPO Boards of Appeal, at least as presently constituted, should give final decisions. In a parallel exercise, it would be appropriate to consider how to improve the current litigation system for patents in Europe.

Translation

The costs associated with the system as set out in the Luxembourg Convention are horrendous and of course would expand with expansion of the Community.

The issue of translations is one of the two main hurdles in the way of a successful Community patent. Although costs are a major concern, the procedural complexity and the risk of loss of the patent if a translation is not filed are also very important.

The Institute understands that many important bodies from non-English speaking countries have pointed out that the most effective, inexpensive and risk-free system would be for the Community patent to be granted and maintained in a single language and that that language should be English, the common language of science and technology. The Institute suggests that UK institutions etc. should support this proposal, but showing appropriate diffidence.

Several points are worth making to get the language issue in perspective. First, insistence on translation into all languages will reduce even further Europe's relatively poor record on innovation. Second, insistence by any country on translation puts its consumers at a disadvantage and reduces employment opportunities. Third, industry in all countries in Europe now cope with the EPC system in which translation occurs often only after many years. During those years, every industry manages to cope with foreign-language patent applications both as a source of information and, more importantly, as potential threats to commercial plans. Four, in the current system the text of the proceedings is the authoritative text. So industry and advisors now have to go back to that text when considering clearance for commercial plans over third-part patents. Five, under the EPC, it is possible for countries not to require translation of the full text. For some time, Germany and the UK did not require such translations. There are still patents in force in the UK which are in French or German. Six, the value of patent applications as a source of technical and marketing information is real. But it is currently met to a very large extent by commercial abstracting services. Also, the value of translation of full texts as sources of technical and marketing information gets exaggerated by interested parties, for instance patent offices and those who make a living from such translations.

The Institute has seen a paper by Herbert Suchy entitled "Survey on the Appropriate Demand for Future European Patent Translation" dated 15 October 1997. It is relevant.

Exhaustion of Rights

A further concern of industry is the rules on exhaustion of rights and whether introduction of a Community patent system would have any effect on the existing rules of exhaustion of rights under national systems and the EPC. A unitary system will not be supported by industry unless it is clear that the existing rules of exhaustion under the EPC are not to be widened following the introduction of a community patent system.

Other Weaknesses

Other weaknesses of the existing Luxembourg Convention are the expected high cost of renewal fees; problems surrounding rights of prior use and compulsory licensing which vary from state to state; and problems for validity of unitary patents when there are prior national rights but not in all countries.

Q6. *Is there a case for further action at Community level.*

Yes. This should be as envisaged in the Green paper but bolder on issues of formalities and representation.

The Institute has the following comments on the ideas the Commission puts forward for discussion on how to make the system more attractive to SMEs, a very important issue.

The Institute considers that the way to make the patent system more attractive to SMEs is to lower the cost and make litigation more predictable, quicker and cheaper.

Utility models are sometimes suggested as being advantageous to SMEs. The Institute has published a study on utility models. The conclusions indicate that introduction of such a system would be a major barrier to innovation, particularly for SMEs. It is a weak alternative to what is necessary: an effective patent system.

The Green Paper mentions the possibility of commercial insurance for legal costs for patent disputes. The Institute understands that experience in the United Kingdom has not been encouraging. The Institute awaits with interest the results of the studies being conducted in the Scandinavian countries.

The Green Paper also raises the possibility of harmonisation on employee inventions, i.e., of compensation regimes. The Institute knows of no thorough economic investigation of this issue. Subject to that the Institute is puzzled why employee inventors, rather than other employees, need state regulation of their remuneration. In general, incentive and reward arrangements for innovation are best left to the initiative of individual companies. Enterprises should be able to establish their own policies. It will be commercially wise for an enterprise which relies on innovation to encourage it by appropriate incentive arrangements.

On possible harmonisation of the patentability of computer programs and software-related inventions, the Institute would comment that *prima facie* there is a case for achieving a comparable system to that in other leading economies, and this might well require amendment of the current provisions. But the Institute considers that this should not be progressed without adequate investigation of economic effects. What have been the effects of the changes in practice in the United States?

Q7. *Should the Luxembourg Convention be turned into a legal instrument covered by the EC treaty (i.e., a regulation made under Article 235)?*

Yes.

Q8. *What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable?*

Further harmonisation is desirable, but on the right terms.

Q9. *What should be the relationship between any Community instrument and the European Patent Convention?*

The EPC has been a success but that statement has to be qualified. Delays are too great and the associated litigation system needs reform desperately. Litigation is discussed above. The delays are such that for periods as long as ten years, half the life of the patent, industry has to cope with uncertainty on whether, and in what form, a patent will finally be granted. This is a major problem for innovative companies, whether the patent is theirs or a competitor's.

The main advantages of taking the EPC system into the Community regime are simplification of introducing changes, and the opportunity to introduce changes in the organisation of the EPO. The Institute notes that the present construction and voting system of the Administrative Council of the EPO are perceived as a potential barrier to healthy change. Nevertheless, being within the Community regime may also not help the EPO to achieve optimal efficiency.

But the Institute would emphasize again the need to ensure the EPC route as well as the national routes are preserved at least until the unitary system has been proven over a sufficient number of years. The litigation system must have been successful, and the whole system must have reached a price level to compete with the EPC and national systems, and be as at least accessible for SMEs as those systems.

All main procedural, pre-grant fees should be reduced, since they are all unduly large and could be substantially reduced without fear of a flood of worthless patent applications. In any case the correct measure to protect against such a flood is maintenance of a high standard of search and examination.

It would be helpful to all applicants, particularly small firms, if they could receive the result of a good quality search expeditiously and at low cost, in order to assess whether to proceed with the application.

The fee system needs to be changed progressively to ensure, as soon as possible, that the system is mainly financed by renewal fees, as are the national systems. Research should be done on the practical efforts, and possible problems, of introducing reduced fees for SMEs.

It is acceptable for some revenue from fees from European patents to be used partly to finance the national systems. However, such revenue should be dedicated to the benefit of the patent system and the encouragement of innovation, and used in a transparent way. It should not be used as a general resource of revenue by exchequers or to build up large and unnecessary reserve funds.

An objective non-automatic link between the needs voiced by the national systems and the allocation of financial resources from a Community or European system would be attractive but could lead to repeated tedious negotiations. Certainly, the allocation of financial resources should be made more transparent.

National offices will continue to serve a useful function as a very quick and cheap route to patents, as a convenient entry point to the EPC and Community patent systems and as providers of advice on the patent system generally. These roles will need to be financed from their own fees except when there is a clear Community role, where some finance from the Community of EPC systems would be logical. In addition national patent offices could be encouraged to provide, at a competitive cost, contract services to the EPO, such as search and examination of applications for Community patents.

October 1997

Examination of Witnesses

PROFESSOR ADAMS and DR JOHN REID, Intellectual Property Institute, called in and were examined.

Chairman

1. Professor Adams and Dr Reid, thank you very much for coming this afternoon, and thank you for the Intellectual Property Institute's written submission. The nature of this afternoon is supposed to be educational for Members of the Committee. Although we have read your written submissions, I would be grateful if you did not assume too much knowledge on

[Chairman *Contd*]

our part. What we want to do is really to be instructed as to what are the problems which are involved. You have an agenda, on which the legal secretary prepared questions we would like to ask, but is there anything that you would wish to say in advance of that before we tackle these?

(Dr Reid) Would it be useful to say something about the IP Institute, very briefly?

2. Yes, certainly.

(Dr Reid) We are a research body, not in terms of bricks or mortar, but in terms of getting research done on important IP issues and trying also to get economic issues addressed in our world, as well as the more usual legal ones. We have very good contacts with the professions, of course, and with industry, and we are trying to widen our circle to consumer bodies, etcetera.

(Professor Adams) We run the ESRC DTI IPI research programme into intellectual property. I thought I would provide a brochure on that.

3. Thank you very much. May we start with the basics. If you could tell us, first of all, what is involved in a European patent; and, secondly, what would be involved in a Community patent, were it to come into existence.

(Dr Reid) In a way, the European patent is a misnomer. The European patent system was brought into place to simplify procedures leading to the grant of national patents. So, at the end of the day, after you have filed for a patent application and have gone through the European procedure, which basically is in Munich, you get a bundle of national patents. You choose, both at the stage of filing the application and the transfer to what is called the national phase, in which countries you want to have a patent. That choice is usually determined by the applicant's commercial interests, balanced with the costs involved.

4. What are the costs involved?

(Dr Reid) Extremely heavy compared with a United States patent. In fact, it is 10 to 20 times, depending on how you do your measurements asserted. A figure which has been given and accepted by the European Patent Office is that if you want to have, through the European route, a bundle of patents in five countries, one is talking about, say, £50,000 for the lifetime of the patents.

5. Forgive me for interrupting, the £50,000 is what you pay the EPO? It has nothing to do with what you pay your own advisors?

(Dr Reid) No, it is including what you pay your own advisors. It is for getting the patent application through the European system, including the average costs of the advice, professional time, etcetera. It does not include litigation. I think that somewhat larger figures might come into the picture.

6. So £50,000 is for getting the five countries. What would be a comparable United States figure?

(Dr Reid) Obviously the big thing is that you only get one patent. That leads to the Community patent, but you are talking about a very, very much lower figure. It could be as low as £3,000.

7. And what would it cost to get a patent for all 18 countries?

(Dr Reid) You terrify me, my Lord. I think one would have to do a figure based on the £50,000 so it would be £120,000, something like that, but you can hear that I am guessing rather than quoting established figures.

8. Because no-one ever does.

(Dr Reid) People do. In some commercial areas, in pharmaceuticals it happens. It turns on your commercial interests. But then, the costs would turn also on the length of the patent specification. These things are not quite as precise as one would hope.

Lord Wigoder

9. Are these applicants, on the whole, substantial organisations, or can they be people of comparatively limited resources?

(Dr Reid) It would be good if they could be people of limited resources but as my Lord Chairman has already brought out, there is the cost aspect, and any advisor of a person of very limited resources would have to say that the European route is not on, just on financial terms.

Chairman

10. What would be the cost of getting a national patent in Britain?

(Dr Reid) Through to expiry, a reasonably large figure. Again, I am guessing, but at the important period of getting a patent granted you are talking about hundreds. Those are the Patent Office costs. The professional fees then turn on the length of the specification, etcetera, etcetera, but one could be talking about £2,000 and perhaps quite a bit higher.

11. So the person of limited means would go first for a United Kingdom patent, and then if he was doing well he would think of going for a European one?

(Dr Reid) But he only has the one-year priority period to take a decision on whether he goes for other countries; for instance, the United States. A point that your Lordships should appreciate is that if he goes for the USA, which is a very big market, he is getting that very big market for a much lower price than he would get in Europe.

12. Right. So that is the European patent. Now, what would be a Community patent?

(Dr Reid) Perhaps I should bring up one further point on the Europe patent. It is not a Community instrument. It is a Convention outside the European system. It has countries that are not members of the European Union. That is a quite a large factor if Europe ever gets to the stage of introducing a unitary patent, a Community patent. One would have thought that there will have to be some sound links between the two systems. That, legally, would be complex.

13. The ones outside it are Switzerland, Liechtenstein and Monaco, is that correct? They make up the 18.

(Dr Reid) Yes.

Lord Goodhart

14. I was going to raise this point. Is there any current institutional relationship between the EPO and the Community?

(Dr Reid) Not an institutional one, as far as I know. There are very good communications.

Chairman

15. Does not the Community have observer status on the EPO Supervisory Board?

(Dr Reid) Yes.

(Professor Adams) There is quite a complex relationship. For example, the possibility of amending on biotechnology, the Convention itself is very slight. However, by other means, the European Commission have promulgated a Directive on Biotechnology, which achieves the objectives of the European Patent Office indirectly. So they do work in harmony.

(Dr Reid) There is no institutional link other than this observer status, which I think is correct.

Lord Goodhart

16. Does that mean that the Commission have refrained from exercising powers up until now over patents?

(Dr Reid) No. Very much not so. I think, correctly, they have perceived patents as very important in the whole sphere of innovation. There were Community initiatives, for instance, on the extension of the supplementary protection certificates for pharmaceuticals. Professor Adams has mentioned the Biotechnology Directive. There are proposals in the Green Paper on software patentability. All of this fits with the pattern that if there is a Community Directive—I am not sure this should be recorded quite as bluntly—but one can then expect Switzerland, Liechtenstein and Monaco to adjust their laws accordingly and support the necessary change in European Patent Office procedure, law, practice, whatever is necessary.

Lord Plant of Highfield

17. If we did move from the European patent to a Community patent, and given that there are only three countries outside the Community which are members of the EPO, would the EPO remain a viable framework or would those three countries be likely to revert to a national patent system? Switzerland, Monaco and Liechtenstein are rather diverse and in two cases very small countries. Would they be likely to continue to support a framework of that sort?

(Dr Reid) I would expect them not to be confronted with a choice, because most voices urge strongly that a Community system would make use of what is already established through the European Patent Convention—that is, the European Patent Office—and specifically the European Patent Office would be the mechanism for granting the Community patent and the two could run in parallel. So that for Switzerland, Liechtenstein and Monaco, the same procedure would lead to a rather small bundle of patents: the European Community patent on the one part, and Liechtenstein, Switzerland and Monaco separately on the other. It should work like that. That seems a fairly obvious choice.

Chairman

18. The Community patent.

(Dr Reid) The Community patent has the very great advantage of potentially getting uniform application in Europe for patents. It must be very attractive to the Commission and, I would suspect, to industry. I would also suspect to consumers because it would stimulate innovation. You would not have holes in the system. At the moment, with these bundles of national patents, a fairly high proportion of them do not cover all the states of the European Union, so you have disparity of protection. We would also, even from a research body's point of view, enthuse about the opportunity of getting a simpler litigation system in place. It does not necessarily follow from the proposals but without that I do not think a unitary patent system would be used.

19. We will come back to the litigation system in a moment but essentially, instead of having a bundle you will have a package, you will have the whole single patent covering the whole Community.

(Dr Reid) Yes, and I suppose the biggest point we are making in our submission, that does not seem to be made as strongly elsewhere, is that it is consumers who would benefit from a more effective patent system. At the end of the day it is we, as consumers, who benefit from innovation; and innovation is hindered if there is an incompetent or inefficient patent system. The other side of the coin is that patents may be granted on inadequate inventions; ones that really do not contribute. This is because the other side of any patent is its effect on competition. You do not want ordinary developments in any particular trade or industry to be hindered by the patent system, so there has to be a *quid pro quo* of something of value being contributed by the patentee. That is, of course, the principle of the system and one that is applied reasonably well by the European Patent Office. Their examination occasionally elicits criticism, but basically does test a level at which one would say "this does merit a patent".

Lord Borrie

20. Who would do that work under a European Community patent?

(Dr Reid) It could be spread about in the sense that existing patent offices, national patent offices which examine, could do part of it; but the automatic response in the trade in our speciality world is that the European Patent Office would do it.

21. If I may follow that up, this suggests that if the administration is as of now, but that the patent will be covering 15 countries in the near future and more in due course, this seems a much more efficient system than the bundle you described which quite often, because of cost if for no other reason, means perhaps only five countries or seven countries or whatever. I

[Lord Borrie *Contd*]

had in mind, when you mentioned five countries, actually to ask you whether you could say that the number five simply came off the top of your head or is five a typical number that applies, at the moment, and the other ten countries are not covered? I am wondering to what extent, in other words, the present European patent lacks coverage across the main body of the Continent.

(Dr Reid) Five is a figure that gets mentioned, but you do get a very big spread from all 15 countries of the European Union being covered to perhaps only two or three. That would however be slightly odd, two or three, because of the break-even point for going for the national route, which still exists. Perhaps I should have made this point earlier, that we do now have two separate systems. One is the ordinary national route, you apply to your national Patent Office; and the other is to apply to the European Patent Office, either after an initial application nationally or directly. To get back to the question, Greece and Portugal fall out of the bundle much more readily than Germany, France and ourselves. If you are interested in toy bricks, you might go for Denmark. It is what is appropriate for a particular case. You look, as an applicant, to where your competitor manufactures. You also look at size of market. There is a curious point and an important point, that if a company is marketing throughout Europe, and its competitors also market only throughout Europe so are not interested in marketing only in two or three countries, then a bundle that only contains three states (or only two) is quite a sensible option. This is because if you are IBM or Unilever and your competitors are multi-nationals, and you are not worried—which they would be probably, but if you were not worried about activity country by country—you can inhibit, stop your competitors, get the reward of your innovation throughout Europe by only having patents in two countries. This is not very *communitaire*, but it has the desired effect.

Chairman

22. Can you explain how that works. You have made a new product. You have patented it in the United Kingdom and France only. Your competitors start selling it in Germany. What then happens?

(Dr Reid) To disclose my background, I was for many years Head of Patents at Unilever. A very interesting patent battle that came up to your Lordships is what is called the Nappy War, Procter & Gamble versus somebody else. Now, Procter were sued in 13 countries in Europe. They won, so they have told people, in eight, and lost in five. They have said to me that if they had lost in one they might have stopped marketing that product in Europe, throughout Europe, because they would not have wanted the difficulties of having a special product for that one country, a different old-fashioned product for that one country. So the complexity of our patent system, as it stands—be it national, by national Patent Offices, or national by bundle—in that case would have inhibited innovation, which would have been of benefit to our babies or our grandchildren's babies.

Lord Goodhart

23. So a multi-national, if it cannot sell in Britain, France or Germany, it is not worth selling in Portugal, Greece or Finland?

(Dr Reid) Yes. It is horses for courses, but that could well be the case. It could be that a small company would also be interested just in the European market, sees it as a whole, and if it is inhibited in one country markets the innovation in none. A major point is this inhibition, my Lord, that slows innovation. The patent system, as it stands, is open to that effect.

Chairman

24. Is it fair to say then in relation to the Community patent, that other things being equal, it is better to have a patent which covers as much territory as possible, but this is heavily dependent upon questions of cost and how you enforce it?

(Dr Reid) Yes. Very, very well put, if I may say so, my Lord.

Lord Wigoder

25. May I follow this up. A Community patent would run throughout the Community, would it, whether you wanted it to or not?

(Dr Reid) Correct. There have been, my Lord, suggestions of a Community patent with holes in it, but the Commission is not pushing that.

26. It would cost the same, whatever degree of cover you wanted?

(Dr Reid) Correct.

Lord Goodhart

27. The suggestion in these papers is that if you did not want a Community patent, you would still be able to go for a European patent and choose which countries you wanted from the bundles?

(Dr Reid) Correct, and still also go for the national route.

28. A Community patent would not exclude a European patent? It would live alongside it?

(Dr Reid) Yes.

Chairman

29. Now, there is a particular Community patent which so far has not got off the ground and that is the Luxembourg Convention 1975, as amended in 1989. Can you tell us, first of all, why it has not got off the ground. What is wrong with it as it stands?

(Dr Reid) I am not sure that I could rehearse all the complexities, but Denmark and Ireland had constitutional problems. The main point was that most industrial bodies, as normal with heavy large industry representation, because large industry sends people to such meetings—but also with representation from small or medium size business—said that it was an unworkable system. This was on two main grounds:

one, the litigation system and secondly, the cost; in particular, the translation regime.

30. The translation cost. This was because the proposal was that you had to translate into every language of every member in order to get your patent at all?

(Dr Reid) Correct.

31. That is easy to understand. Can you explain to us the litigation proposals.

(Dr Reid) The Luxembourg Convention has it that any invalidity decision is an invalidity decision for the Community patent. That is logical. The concern that industry had—and has about the current proposal for that matter—is that such a decision could be taken poorly; would not be a sound judgment.

32. This is the spectre of some county court judge in Portugal who has a patent case once every three years, revoking an important patent with effect for the whole Community?

(Dr Reid) Correct. The interested circles have asserted very strongly that they would not use the system. It does not prove they would not but it has certainly been said very strongly.

33. That is the main objection?

(Dr Reid) Yes. Translation, for instance the costs, is a major factor, but is not as important.

34. What are the various suggestions in play in relation to translation?

(Dr Reid) To go back to the European Patent Office, at present that system works on three languages: English, French and German. So one possibility for a new system is that it works only in those three. There are proposals and have been for many years—at one time accepted in the Luxembourg Convention—that there should only be limited translation. There have been proposals that there should only be translation when an action is contemplated, for example when litigation is started, or at the stage when the infringing party is informed of possible infringement. This would be the necessary conditions for a translation to be required.

35. In those circumstances, which would count as the authentic version?

(Dr Reid) We all reach back to what the European Patent Convention says. This is the language of the proceedings of the grant of the patent. So if the European Patent Office has used French in the procedure it granted, which is at the instigation of the applicant, then the French text is the authoritative text. Most people would simply assume that the same would apply under the Community patent translation regime.

36. So if you then commence proceedings in Spain, you would gain nothing by hiring a clever Spanish translator to soup up your patent?

(Dr Reid) Correct. You might run a risk because if the scope of the patent, in the translated form, is less than in the original, then the infringer can rely on the narrower scope of the translation. It sounds obscure but it really is fair. If your language is Spanish and the text that you are given in Spanish has a narrower interpretation, you should be able to rely on that.

Lord Goodhart

37. If you were in a Spanish court and assuming that the judges did not understand French, they might find competing experts arguing about what the correct interpretation into Spanish was.

(Dr Reid) Yes. Some of the other suggestions are that there should be official translations into the various languages. There should be centralised translation at somebody's expense, be it the public's or the applicant's. There are suggestions that the translation should be on demand with payment of a reasonable threshold figure, so that one has to think before asking for this translation. The translation is then available for all other people who want to make use of the translation, and the translation should otherwise be funded from renewal fee income that the national Patent Offices receive. That is under the European Patent Convention.

Chairman

38. So we have a large menu of possible choices there. Could you tell us which one you would go for?

(Dr Reid) With some diffidence, because we are sitting here in England, we would support what rather amazingly has been pushed very strongly by the Germans and the French, and that is the English only option.

Lord Goodhart

39. Even the French?

(Dr Reid) Yes. French industry has pushed that very strongly.

(Professor Adams) May I add something to that. The present figures for filings in the European Patent Office are approximately as follows: 7 per cent in French, 28 per cent in Germany, 65 per cent in English.

(Dr Reid) Those are the only three options. Whatever French industry may say, it is extremely difficult to see the French Government ever agreeing to this. However French Government representatives have sat with their heads gently down when French private practice, the professionals, have argued very, very vigorously against their industry colleagues. The Government representatives perhaps do not agree with the professions arguments against English only.

Chairman

40. What would be your second choice?

(Dr Reid) The three language solution but in any choice—and perhaps the more fundamental point that I have not brought out—translation only at the litigation stage.

Lord Wedderburn of Charlton

41. Those figures you kindly gave us as to the breakdown of the use of language with English starting so high, that would include quite a few presumably

[Lord Wedderburn of Charlton *Contd*]

American-based multinationals who purport to use English?

(Professor Adams) And Japanese.

(Dr Reid) We are not talking about ourselves. We are talking about the international community, our United States friends and others.

Lord Wedderburn of Charlton] It shows the strength of English in the global economy.

Lord Goodhart

42. It was said you could use any of the Community languages but there was no translation until the stage of litigation. Would there be a risk of people putting their applications in, let us say, Finnish, in order to make it more difficult for people to find out what the patent actually said?

(Dr Reid) Yes. As your Lordships have probably worked out, there are many, many options being put forward, but when we have Estonia and Latvia in, on the one hand it is very unreasonable to expect a small company in one of those countries to have to file its application in English. So one of the compromises is that the initial application can be in any one of the Community languages, but then it is translated into one version: the English, French, or German. On the other hand, it could be in English only. One other point I should bring out to your Lordships is the strength of the argument that one of the reasons or justifications for a patent system is communicating developments. The patentee has to disclose his invention before the state gives an exclusive right. Is it a proper disclosure in that system for it to be in a language (e.g. English) that is foreign to a high proportion—the majority of the population in the European Union? That would be true of any one language, of course. This is an argument which has been brought forward very strongly by proponents who say that we do have to have a system which translates into all languages. There are many replies. Two points are worth your Lordships' attention. One is that in the present system in the European Patent Convention there is, as Professor Adams says, just the three languages and 65 per cent in English. Until you get to what in the jargon is called the national phase, after grant by the European Patent Office they transfer then to being national patents, but until that stage there is no full translation. That full translation can be years and years and years after the patent application has been published, in English, French or German. (As my Lord Chairman will know, the procedure in the European Patent Office can take a very long time.) So the wide Community, the general public, potential competitors, all are faced with handling potential patent barriers in just one of these three languages. It does not seem to be a major problem for the Italians, the Spanish etc. People do not shout about it. The other point, which is perhaps merely evidence of what I have just said, is the level of use of the translations at the "national phase"—and it has been recorded in a number of countries—is extremely low.

Chairman

43. The Dutch go straight to the English version anyway?

(Dr Reid) Yes. But even Spanish private practice that is arguing very vigorously for Spanish as one of the languages, accept that the figures for consultation of the Spanish translation of patents granted through the European route, the EPO again, are very low. I could not name them but they are below 20 per cent.

(Professor Adams) I have a figure of 3 per cent.

44. Perhaps we could leave language for the moment and go on to judicial arrangements, which are probably even more difficult. The Luxembourg Convention's proposal which is, so to speak, that you appoint every national judge in the Community to be a Community judge, for the purposes of deciding infringement and validity, has a certain logic to it; but, as I gather, it is unacceptable because of risks of the quality of judgment. Now, what can we substitute for that and yet have the same logic?

(Dr Reid) We could substitute a central court that was peripatetic, staffed—if one could say that of a court—by judges. I am not sure whether judges can be staff.

45. It is acceptable, yes.

(Dr Reid) It could be staffed with judges from the national courts. A second alternative is a number of judges selected from a core group, but always having one judge from the country of the infringer. There are subtleties in this.

46. You mean a court deciding at first instance, trying the question of infringement or the validity of the European patent?

(Dr Reid) You could have that system, yes.

47. Our system is that you have a single judge and we have enough business here for a couple of judges sitting every day in the patent court. Now, how is a peripatetic international court going to deal with that?

(Dr Reid) You may be right, my Lord. Perhaps I think I am wrong to put that forward as the sensible solution at first instance. But it would have to be available at the level of appeal in the first instance. But people do make the proposal that I have just made, that it would be available at first instance. But because the figures for Germany are very, very high—the number of cases of infringement that the German courts hear is very much higher than the ones in England— one would then have to have some system to deal with "small cases".

48. Is this right? You would still have the Portuguese district judge deciding the question but you would have a right of appeal to a central European patent court?

(Dr Reid) Yes. Now there is a system of appeal in the Luxembourg Convention, of course, but most people, so I understand, consider it very complex and it would take many years to get through it. It has to be much simpler.

(Professor Adams) The present system has to be seen also in the context of the Brussels Convention on Jurisdiction and Enforcement. It is an entirely separate

[Chairman *Contd*]

Convention and lays down certain rules. For example, Article 2 says that the defendant must be sued in the courts of domicile, but then Article 5(3) has an exception to that which is that you can sue in the courts of the country where the event has given rise to the harm occurred. Now, it is the latter provision plus Article 24 on the provisional measures, which has led, because goods move around the Community, to the phenomenon known as forum shopping. People are picking their *fora* quite deliberately to achieve certain effects. You might sue on a bad patent in a court where you had less talented judges, less knowledgeable judges and so on. Since Articles 21 and 22 say that the court first seized of the matter, in effect, has that jurisdiction, you can then get away with all sorts of mischief. There is the famous Italian torpedo whereby you can effectively hold up the litigation, literally for years, by suing in Italy. I believe the oldest case currently is 30 years old.

Lord Goodhart

49. The problem, as I understand it, from reading these papers, is that to set up a European or Community Patent Court would require amendment of the Community Treaties?

(Professor Adams) Or another Treaty, as was done for the Brussels Convention.

(Dr Reid) One of the points that I am sure you will hear from industry spokesmen, and in particular from the Trade Marks Patents and Designs Federation, which is a main body representing IP owners, closely allied with the CBI, is that unless these problems are solved, we will be back with the problems of the Luxembourg Convention. We are all agreed that the principle of unitary patent will further innovation to our general good, but we will have a system which will not work and will not be used. There is a corollary to that. It does not sound very *communitaire* but it will be very difficult to get bodies representing SMEs and industry, in general, to accept even the whiff of closure of the European Patent Office system, the EPC, let alone closure of the national Patent Offices. This is a cautious world because we are talking about important aspects of commercial behaviour. If you are a small company that has a major innovation, or a major company that has a major innovation, you do not want to put it at risk; so all the arguments are very cautious. It may be right that there should be a unitary patent but we must preserve what we have. You will hear that pretty consistently.

Chairman

50. What about the Green Paper proposal that the EPO decide validity and that the national courts decide infringement?

(Dr Reid) Well, we here in the United Kingdom react rather against that. I do. It seems, in practice, that the two issues are infringement and validity interact.

51. I wonder if you could explain to the Committee why they interact.

(Dr Reid) The terms of the claim are the starting point for determining the scope of a patent. It is interpretation of the terms of the claim that determines scope. It is quite tempting for a patentee to argue, when trying to persuade the court of the *validity* of a patent, to imply or explicitly argue for a relatively narrow interpretation of the claims, so that they are better distinguished, further away, from the prior art. When it comes to *infringement*, of course, what he or she wants to do is to argue that these words have a broad interpretation. The way traditionally that English courts have dealt with this is that both validity and infringement are heard by the same judge. It is a very effective route.

52. The judge quite often says, "I do not have to decide on the validity of this patent because if it covers what this chap is doing, it must be invalid"?

(Dr Reid) Yes. I have spent many years in the Netherlands and I am delighted to say that the Dutch judges nod vigorously when this point is made. I am given to understand that the German judges also see it as a very strong argument, so perhaps there will be voices getting validity and infringement together. The present proposals from the European Patent Office about the use of the European Patent Office would have them separate. There is another point about the European Patent Office. There are serious doubts about the quality of the judgments that they would give on major issues. There are current proposals to remedy certain defects there. So perhaps in a year or two's time we will have a more favourable position, but that does not remove the fundamental problem about infringement and validity.

53. And, as you were saying earlier, they do take an awful long time on opposition proceedings and presumably would take the same time over challenges to validity?

(Dr Reid) Yes. I think certain groups that will be before your Lordships will be telling you more about the proposals currently before the Administrative Council for the EPO to try and get delays reduced and get the quality of the judgments higher. There would still remain the problem of infringement and validity.

Lord Plant of Highfield

54. Could I raise a problem in relation to that. It goes back to my earlier question. I should say I am not a lawyer so both my earlier question and this one may be totally naive but I am slightly lost now, I have to say. As I understood it, in answer to my earlier question you said that the European Patent Office would actually be running the Community patent arrangements and, therefore, there was no question of Switzerland, Liechtenstein and Monaco being out of the circle because the European Patent Office would be running it. I can see that. Part of the aim of this change is to improve efficiency and to reduce costs. You have already said a good deal in the last few minutes about some of the defects of the European Patent Office. You also said, as I recall, in response to Lord Goodhart's question that the European Patent Office would not only run the Community patent but would also continue to run the bundling European patent. I just find it very difficult to understand how

[Lord Plant of Highfield *Contd*]

an office which already is to a degree inefficient and is managing what is perceived to be an inefficient system can somehow be turned into something that not only runs the existing system with those inefficiencies but can also run a new system which is supposed to be more efficient, facilitate innovation and reduce costs. That may be a question from the depths of my ignorance but I would quite like some sort of reassurance on those questions?

(Dr Reid) I do not believe, my Lord, it is from the depths of ignorance. It is a very good question. There are two aspects to it. The European Patent Office's main function is searching and examining the patent applications, searching for this prior art, what is free for the general public and what no patent should take away, both in terms of novelty and obviousness. Obviously if something is already disclosed, it lacks novelty. If the purported invention is obvious over what is disclosed, then no patent should be able to stop you doing it. So the search is to look for material against which novelty and obviousness can be judged and the examination is to make that judgment and that is done by officials in examining patent offices throughout the world. It is done at our United Kingdom Patent Office if it is for United Kingdom patents; it is done at the European Patent Office for European patents. On the whole the search and examinations are done efficiently. The delays occur mainly in appeal, and in oppositions. The second aspect is that my wording was misleading. Search and examination of applications for Community patents would not involve addition of a separate system. It would just be that the unitary patent application would go into the existing system. There might well be a choice on the part of the applicant at various stages as to whether he wants the end result to be a European Patent Convention bundle of patents or a unitary patent through the Community patent system, but the procedure would be exactly the same. So it is not adding something; it is making use of an existing system for another purpose.

55. It is adding complexity?

(Dr Reid) It is adding very little complexity. It is the applicant's choice. At the end when the European Patent Office has said, "We will grant," then if the application is one for a unitary patent, what gets granted is a unitary patent. If the application has been one for a bundle, what gets granted is a bundle. So that is not more complex.

Chairman

56. Is there any problem about allowing the applicant to elect at any particular stage which he is going for?

(Dr Reid) I think third parties should know which one is intended but I would have thought that until grant the applicant should have the choice. But I feel I should return to Lord Plant's question: it seems rather odd to give the task of granting Community patents to a body that we have just criticised, or I have just criticised. Lord Hoffmann has mentioned the great delays. I should expand on my response. There can be delays even in the search and examination but there are often very long delays in what is called the opposition period. If I file for a patent in the European Patent Office and the European Patent Office says that it is going to grant it, you would do your best to oppose it if your commercial plans possibly would be affected by such a grant. There is a period within which you could file such an opposition. A criticism that the European Patent Office is open to is that there are extreme delays sometimes in the opposition procedure and then your comment on my idea, or our idea, that the European Patent Office should be given this task is very pertinent. I suppose the only answer is in two bits: what are the other options? Is there even one alternative? Secondly, one can but hope that the current pressures to get the system more efficient will be successful, but I am not optimistic.

57. You are not advocating, are you, that the European Patent Office be given the jurisdiction to try questions of validity?

(Dr Reid) No, but I heard Lord Plant asking, why entrust this important Community patent to a body we are criticising for having delays, to which there is no better answer than: I cannot think of an alternative.

Lord Wedderburn of Charlton

58. Would the arguments come up *pari passu*, and perhaps make it a little more complex where we are looking at an application for revocation?

(Dr Reid) I think that is correct. I suppose in principle it is extremely close to what happens in an opposition because in an opposition procedure the opponent is saying, "This should not have been granted." One retreats behind—and it is not a reassuring factor for your Lordships—the proposal in the Green Paper on this that perhaps the reforms that are currently being pressed for in the European Patent Convention system will make these delays much shorter.

Chairman

59. We have had differences of view from people we have received evidence from about whether, if there is going to be a Community patent, it ought to be introduced by Convention or by regulation. What is your position on that?

(Dr Reid) I turn to Professor Adams.

(Professor Adams) The thinking about this seems to have changed over the years. There was a point at which it was thought to be problematic whether the Community could legislate at all on intellectual property matters. That has clearly changed and I think the majority thinking of lawyers at the moment is that it would be possible to do it under the Treaty of Rome instead of having separate, free-standing legislation.

60. But I think there was a difference of view as to whether it was desirable. Obviously the advantage of doing it under the Treaty of Rome is that anybody who joins the Community is automatically stuck with it; it is an *acquis communitaire*, but there are also great

[Chairman *Contd*]

advantages of flexibility in having a Convention, I think?

(Dr Reid) I am not so sure. The experience with the European Patent Convention is somewhat unsatisfactory. We have had this interaction with Community policy where there have been Directives to the European Union states which indirectly then have led to changes in practice in the European Patent Office and changes in the European Patent Convention, at least in how it is applied. I am trying to think of good reasons why one would go for a Convention.

61. If we had a Convention would we not have greater flexibility in the judicial arrangements we can make? If we went for regulation we would be stuck with the two available European courts, the Court of First Instance and the ECJ?

(Professor Adams) Unless we had a separate Convention on the judicial arrangements on both sides.

62. But that would need a separate Convention?

(Professor Adams) That would need a separate Convention, yes.

63. There are just one or two other things I would like to pick up because we are beginning to run out of time. You mentioned that there might be problems over the principle of exhaustion of rights, which I understand to mean that if you sold the product you could not complain about its being re-exported to another Community country. What are the problems that you have in mind?

(Dr Reid) I think it is a somewhat farfetched one, but the line of reasoning is that after introduction of a Community patent perhaps the Court of Justice would hold that where you had a bundle of patents through the European Patent Convention, so the old current system, and you had not filed in country X, the export from that country of a product that you had *not* explicitly consented to be sold there yourself, could not be stopped in a country where you did have a national patent because the mere fact of not filing would be treated as implied consent. I think that is farfetched but people want the point made as a way to remove it. There is a danger, of course, that if you make the point you bring it to people's attention and it may have the opposite effect, but there we are.

Chairman] Do there remain any questions Members of the Committee would like to ask while we have the benefit of our witnesses' advice?

Lord Plant of Highfield

64. One of the questions that I think has not been put to Professor Adams and Dr Reid is: would the Community patent be likely to render the national patent system redundant?

(Dr Reid) We could compare ourselves with the United States back when it was first formed: they had state patents. It would rather surprise me if, in the year 2080, there were national patents as we know them now, but any such change is many years away. New systems will need to be tested in terms of effectiveness. Also perhaps we will have different arrangements. We could have a spread system of patent granting, not just in Munich or Munich and The Hague. We could have Community patents granted in Newport, where our National Patent Office is, in Stockholm etcetera, but all as part of a European system.

65. How does it work in the United States? Do they have district offices there?

(Dr Reid) No.

66. A single patent office?

(Dr Reid) Only in Washington. It seems to me somewhat old-fashioned to be so fixed. The national patent offices could develop new roles. But at the moment I think you will get consistent evidence from us all that the national patent offices should be preserved, in parallel with the European (EPC) patent system.

Chairman] Thank you very much, that has been extremely helpful. We are most grateful to you.

WEDNESDAY 18 FEBRUARY 1998

Present:

Borrie, L
Elles, B
Goodhart, L
Hacking, L
Hoffmann, L (Chairman)
Plant of Highfield, L
Wedderburn of Charlton, L
Wigoder, L

Memorandum by The Chartered Institute of Patent Agents

The Chartered Institute of Patent Agents ("the Chartered Institute") represents the unitary profession of patent attorneys in the United kingdom. We have over 2,100 British Members including over 1,400 Fellows who are or have been registered patent agents in the United Kingdom. The vast majority are also qualified as European patent attorneys, entitled to practice before the European Patent Office (EPO). Indeed, a high proportion of European patent applications are filed by our Members who represent applicants before the examining and opposition divisions and Boards of Appeal of the EPO. Some of our Members work in the intellectual property departments of international corporations or government departments; others work in private practice representing a broad spectrum of clients, including the individual inventor and SMEs. Other clients are foreign applicants, some of whom are themselves multi-nationals, whose patent applications are received for processing via an overseas associate. All of our Members work both for patentees and defendants in various patent matters, including patent acquisition and enforcement, and have rights of audience before certain courts of law. Many of our Members also work in other areas of intellectual property law including designs, copyrights and trade marks. In addition, we have almost 200 overseas patent attorneys as Foreign Members of the Chartered Institute. Thus, in representing its Members' view, the Chartered Institute is able to deploy an all-round perspective of both UK and foreign intellectual property laws, including the Agreement relating to Community Patents, together with a specialist in-depth knowledge of the operation of the European Patent Convention (EPC) and the Patent Cooperation Treaty (PCT).

Preliminary comment

The following comments summarise the response of the Chartered Institute of Patent Agents to the Green Paper and are provided here by way of background to the answers to your questions:

We support the introduction of a unitary patent as a third alternative to the existing European and national patent systems. However, we believe that the Luxembourg Convention of 1989, as it stands, is wholly inadequate—the legal provisions are unsatisfactory and there is no advantage in cost. Several of the key criteria which need to be satisfied by any unitary patent system apply equally to the existing European system. These problems are increasing as further countries join the European Union. The Chartered Institute sees great merit in a solution which seeks to build upon the success of the European Patent Convention whilst addressing the key flaws which are common to both the European and any future unitary patent system, namely cost and legal certainty.

The issue of cost is dominated by discussions of translation requirements and official fees, particularly renewal fees. There seems little prospect that the Community will accept a single official language. In these circumstance, the Chartered Institute has made a modified "translation on demand" proposal, linked to national distribution of renewal fees, as a constructive contribution to the ongoing debate on this difficult issue. We also advocate greater flexibility in the distribution of renewal fee income and greater transparency to ensure its proper use.

The Chartered Institute believes that the patent laws of Member States should be harmonised to promote convergence of judicial procedures, interpretation and remedies for patent infringement, thereby providing greater legal certainty for patentees and third parties alike. It is vital that issues of validity are considered together with infringement; we therefore do not agree that the European Patent Office should have exclusive jurisdiction for all revocation proceedings. As a first step, we support the establishment of a "Common Appeal Court" to adjudicate on patent validity and infringement for the whole Community. Such a court must be staffed by experienced patents judges from national courts.

In summary, the Chartered Institute welcomes initiatives which increase choice and legal certainty for patentees in Europe whilst reducing patent costs and contributing to a gradual harmonisation of certain aspects of patent law.

Q1. *What is the value of patents to United Kingdom industry?*

1.1 In order to answer this question it is important to understand what rights the patent owner is given by the grant of a patent. Section 60 of the UK Patents Act 1977 discusses the meaning of infringement and states that a person infringes a patent for an invention if he does any of a list of acts in the United Kingdom without

the consent of the proprietor of the patent; included in the list of prohibited acts are make, dispose of, or import a product, or use a process. The right conferred by a patent is that the proprietor can stop the use of the invention without his permission.

1.2 Considering patents as commercial "tools" used by industry to support its competitiveness, whilst correct, tends to obscure the basis of patent law, which is a contract between the state and the inventor. This contract not only encourages the inventive process and the disclosure of inventions but also encourages the efforts of the inventor to commercialise the invention. There have been instances of significant industrial development arising from the work of individual inventors where that work at a very vulnerable stage has been protected by patents. We would cite Ron Higman (WORKMATE), Percy Shaw (CATSEYES), Ken Pickles (CHORLEYWOOD BREADMAKING PROCESS) and George Molyneux (PLASTICS CAVITY CLOSERS).

1.3 Many SME's rely on patent protection, particularly in the start-up phase of a product or process. The notion that such small concerns cannot use patents because of the cost of enforcement is a fallacy. The existence of a patent normally tips the scales against copying by competitors who are usually no more able to afford full scale litigation than the patentee. David and Goliath situations are a rarity.

1.4 The value of a patent can be realised in a number of ways. Most patents relate to technical advances of an "incremental" rather than "major breakthrough" nature and it would be difficult to quantify the value of such patent protection, although the existence of the patent system supports the investment of time and money by even small companies to make incremental progress in their field.

1.5 Some industries, such as the pharmaceutical industry, produce products which require huge investments in safety and regulatory tests but can be easily copied; such industries can only justify the huge investment if they are able to recoup the costs by being able to prevent competitors from copying their product. Typically the costs incurred before first marketing of a new pharmaceutical product are £200 to £300 million. Without effective patent protection there would be no way that the company could recover such an investment; research and development would not be carried out because it could not be economically justified. The value of the patents is such industries is illustrated by the reports of lost sales as patents for important pharmaceutical products expire. Recent reports suggest that companies will normally lose from 80 to 90 per cent of their sales of a major product to generic competition shortly after patent expiry. It should also be noted that any prospectus for the flotation on the Stock Market of a company in, for example, the Biotech field gives a detailed review of patent holdings since at the time of flotation its patent portfolio is likely to be its most valuable asset.

1.6 The electronics and computing industry produced products which may incorporate tens or hundreds of patented inventions; accordingly the approach in this industry is for patent proprietors to license their patents on a non-exclusive basis. The approach companies take in this industry depends upon the strength of their patent portfolio. A company will need to balance the value of its own portfolio to a potential licensee against the value of freedom of action under the potential licensee's portfolio. The most common arrangement in this industry is a cross licence under the patents with a balancing payment reflecting the relative values of the patent portfolios. It is difficult to put a value on patents used in this way because the information is considered to be highly confidential to the parties involved. However IBM has published that it made in excess of $600 million from patent licensing worldwide in a recent calendar year.

1.7 There are some organisations which do not manufacture products themselves but do research and development with the sole aim of funding their work and marking a profit from licensing their patents. The only assets such companies have are their people and their patents; this type of organisation is presently more common in the USA than the UK, and includes Biotech companies such as Genentech Inc., Chiron Corporation, and Kirin-Amgen Inc.

1.8 The value of patents to United Kingdom industry is that they assist the owner in getting a reasonable return on the investment he has made in making the invention.

Q2. *What purposes do the present patent systems in Europe serve for the United Kingdom*?

2.1 The existing patent systems in Europe comprise the national systems by which national patents may be obtained directly, and the European patent system, administered by the EPO, by which national (European) patents may be obtained. The European Commission has recently published a Green Paper on the Community patent and the patent system in Europe to assess whether a unitary Community patent is needed.

2.2 The purpose of the patent system for industry in the United Kingdom is to enable industry to obtain a fair return on its investment in research and development. The value of a patent has been discussed above. The cost of obtaining the patent must be in proportion to its ultimate value; there is little point spending more money on obtaining a patent than will be returned be exploiting the right by use of licensing.

2.3 The present system in Europe enables the owner of an invention to choose in how many countries he wishes to file patent applications, and whether to file national applications or to "put all his eggs in one basket" by filing a single European patent application designating some or all States party to the EPC. Not all inventions have the same value or geographical applicability and the Chartered Institute believes that it is essential that the

choice of obtaining national patents (either by separate national applications or as a European patent obtained under the EPC) remains if a unitary patent system is introduced.

Q3. *What would be the main advantages and disadvantages of patent protection covering the whole Community*?

3.1 The Chartered Institute believes that a unitary patent would be advantageous to particular parts of industry if it could be obtained and renewed at a much cheaper cost than the cost of obtaining, validating and maintaining a European patent covering all Member States. This is particulary important for patentees for whom in the normal way full geographic patent coverage of the entire Community would often not be desired because it is commercially unnecessary. However we believe that it is essential that if a unitary patent were to be introduced it would be as an alternative to national patents obtained via national applications or by the European route.

3.2 A potential disadvantage of a Community patent would be that an inexperienced national court might be able to declare the patent invalid across the EU. Therefore a central court for adjudication of issues of patent infringement and validity for the whole Community, *prima facie*, would be an attractive idea. Such a court would have to command respect, both in terms of the quality and speed of its decisions. There is at present no formal harmonisation among the patent laws of Member States of the provisions for the law of patent infringement; such harmonisation would be necessary.

Q4. *Would the Community patent system as devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratifications were made)*?

4.1 No. We think that it is likely that, if the Luxembourg Convention came into effect in its present (1989) form, the Community patent system would be little used. The legal provisions are unsatisfactory and no advantage in cost is readily apparent.

Q5. *What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)*?

5.1 The high cost of obtaining patent protection throughout the EU is certainly a disadvantage and a signficant contributor is the cost of translation of the patent at grant.

5.2 There is also no doubt that judicial uncertainty is a signficant weakness in the present form of the Luxembourg Convention. Each Member State has a different history and judicial system where validity, enforcement, formality/procedure, timescales, costs and remedies for patent infringement are handled differently. There is therefore a wide range of effectiveness of patents throughout the EU from strong enforcement in some Member States to being effectively non-existent in others. To run the risk of a patent for the whole of the EU being subject to a low quality court decision would be wholly unacceptable to a patentee. The problem would become worse as more countries join the EU. Speed is also a consideration but, bearing in mind that some patent infringement disputes may involve very signficant commercial issues affecting investment and employment, it is more important to reach the right decision after proper consideration, than to reach the wrong decision by rushed justice. Adequate appeal procedures must also be provided to cope with judicial error.

5.3 The Chartered Institute believes that the problems associated with prior use rights, which are set out in 8.3, and potentially high renewal fees might also be defects.

Q6. *Is there a case for further action at community level?*

6.1 The Chartered Institute believes that further harmonisation referred to elsewhere in this submission is desirable. However we would urge caution in the direction and pace of such harmonisation. We believe that very high quality work is done by the British Patent Office and Courts and would welcome harmonisation towards our practices rather than against them. In particular, we believe that the requirements for discovery and cross examination of witnesses under the common law are important aspects of a proper trial procedure and should be present (albeit in a controlled environment) in any harmonised system of trial procedure. Continental legal systems presently make little or no use of these and may even deny evidence from experts if they have been paid by one of the parties.

Q7. *Should the Luxembourg convention be turned into a legal instrument covered by the EC Treaty (i.e., a regulation made under Article 235)?*

7.1 The Chartered Institute sees merit in aiming for a new international convention which would not only formally harmonise the substantive law of patent infringement within the Member States of the EU, but also institute some form of supra-national patent court for the adjudication of patent infringement and validity disputes, as well as making some modifications in the EPC. A new convention would allow Switzerland and the increasing number of States which base their patent system on a registration of European patents to be included. Harmonisation could also then be an essential requirement for candidate countries for EU membership in advance of them becoming EU members. We feel that a much greater degree of harmonisation would occur by a new convention than by a Regulation which could not go beyond the current ambit of the EU.

7.2 We also believe that although a Regulation would allow the new patent system to be brought into force more rapidly than under a Convention, there would be a possibility that it might be brought in with some defects still unresolved.

Q8. *What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable?*

8.1 The Chartered Institute believes that international harmonisation of patent laws is essential; unfortunately it is not inevitable! In particular there is a need for US laws with their "first to invent" system to harmonise with those of the rest of the world which have a "first to file" system.

8.2 There is a need for convergence of judicial decisions within the EU. Although the provisions for harmonisation of the law of patent infringement were placed in the Luxembourg Convention of 1975, we understand that not all member states have adopted them into their national laws. It would be desirable to ensure harmonisation of this aspect of substantive patent law under EU Regulation or under a new International Convention.

8.3 We believe that the provisions concerning prior secret use or possession under current national patent systems are contrary to Article 30 and not justifiable under Article 36 of the Community Treaty because they serve to discriminate between residents of a particular State as regards those in other Member States. This arises because an act of prior use or possession, which is itself insufficient to invalidate a later patent claim because it does not constitute an enabling disclosure made available to the public, provides the prior use, or a person who has made serious and effective preparations for such a use, with a right to continue that act or projected act but only in the State where that prior, or projected, act was performed. It is suggested that any such prior user right should be a right to continue that use anywhere within the Community. This could be made the subject of a regulation for harmonising the principles for patent infringement in all EU Member States.

Q9. *What should be the relationship between any Community Instrument and the European Patent Convention?*

9.1 This question hinges at the possibility of integrating the EPO into Community law. This would be a mammoth change requiring much of the EPC to be replaced by, for example, an EU Regulation—as much as the Community Trade Mark system is governed by the Trade Mark Regulation, working through the Office for the Harmonisation of the Internal Market (OHIM). If there were to be a Patent Regulation, it might also be necessary to contemplate a Harmonisation Directive, as has been done with Trade Marks, and as is proposed in respect of Designs. Incorporating the EPC and EPO into the Community could provide an opportunity to make amendments and substantive patent law.

9.2 A totally new structure would be required, most obviously the Administrative Council would have to be replaced. The Chartered Institute (which represents patent attorneys with responsibility for filing both patent and trade mark applications) does not regard the structure of OHIM as an acceptable model for any Community oversight of the EPO. A particular problem with OHIM is the regulations which the Commission applies to the finances; in particular, it appears that the Office is not allowed to carry over surpluses earned in one year to meet the demands of the next year and proper investment in resources, human and machine. Obviously, the office must be responsible to a Community body in the same way that the EPO is responsible to the Administrative Council. But we would not want to see oversight of the EPO by a Community organ becoming a stranglehold.

9.3 In the absence of even a rough outline of a possible EU/EPO structure, it is difficult to make any judgement. We therefore predicate that questions of substantive law would be the prerogative of the Council of Ministers and that day-to-day operation of the EPO would remain with the President. That leaves the vital area of administration. We believe that an investigation is necessary. An analysis of what the present Administrative Council actually does, accompanied by a comparison of its activities with its remit should be carried out. This should ask:

- Are there existing problems?
- Are there problems we can see over the next few years?
- What level of Community organ would be appropriate to deal with each item of practice?
- Can we forsee advantages/disadvantages if such Community organ(s) replace the Administrative Council?

In parallel with such an investigation, one could take the answers to the first two questions and ask:

- Could the existing Administrative Council structure be improved?
- What advantages/disadvantages would follow from such an improvement?

Then we could compare the two pictures: one the EU structure, the other the improved "existing" structure and ascertain if the change to Community control would be likely to produce a sufficiently positive result.

9.4 In summary, we commend the investigative approach discussed above. Until this has been done, the Chartered Institute considers it impossible to arrive at a proper judgement on the possibilities of integration of the EPC into Community law.

9.5 It should be noted that at present, as stated in para 7.1 above, the Chartered Institute view is that a separate Convention would be preferable to a EU Regulation for effecting harmonisation of substantive law of patent infringement since this will allow the inclusion of non-EU countries for which EPC caters; it would also allow the creation of a Common Appeal Court staffed by a specialist panel of experienced patent judges which is apparently not possible by way of a Regulation.

One or more representatives of the Chartered Institute of Patent Agents would be available to give oral evidence if requested. A copy of the Chartered Institute's response to the Green Paper will be forwarded to you when finalised.

October 1997

Letter from Licensing Executives Society

1. *What is the value of patents to United Kingdom Industry?*

Patents are of enormous value to industry in the United Kingdom. They provide a very strong incentive for research and innovation, matters which are known to be very important to this government. Through the monopoly protection provided, they give a reward for research and innovation at all levels. Small and medium size enterprises benefit to the same extent as larger industry. In return, a great deal of valuable technical and scientific information is made publicly available. When properly used, searches of patent databases can result in very significant savings in unnecessary repetition of research. Provided the monopoly obtained is carefully delineated, there can be little doubt as to the net benefit of patents for industry both here and elsewhere.

2. *What purposes do the patent system in Europe serve for the United Kingdom?*

Under the present patent systems in Europe, UK organisations can obtain patent protection on a flexible basis. If they want to limit their protection to the UK or any other single European country, they can do so. Equally, if they want to choose a few European countries in which to obtain monopoly protection, that is also possible, either by filling applications through each country's national patent offices or through the European Patent Office. They can also obtain patent protection throughout Europe using the EPC, at significant cost saving compared to having to file for national patents in each country. So the present systems clearly provide flexibility and potential costs savings.

That said, there are unquestionably difficulties with the existing systems, and improvements can and should be made. The EPO has recently significantly reduced its charges, and there is scope for further reduction. Equally, the procedures at the EPO need to be improved: they need to be speeded up, made more rigorous (particularly as regards the way in which evidence is adduced), and made more open. (All of these are issues which have been addressed separately in proposals published recently by Mr Justice Jacob with, we believe, the support of patent judges elsewhere in Europe. We assume you are aware of these proposals, but will be happy to provide further information if that is not the case).

3. *What would be the main advantages and disadvantages of patent protection covering the whole Community?*

The theoretical advantages of patent protection covering the whole Community would include costs saving, both at the application stage and when the patents are being enforced; reduced complexity; and greater consistency in the application of European patent law in the different Member States of the EU. However we stress that these are *theoretical* benefits. As we will explain in more detail in our submission to the Commission in response to its Green Paper, the Community Patent System as proposed under the Luxembourg Convention would not result in these benefits. Nor would those arrangements as amended in accordance with proposals in the Green Paper.

In particular, the system as envisaged in the Green Paper seems to stand no chance of being cost effective, and industry would not have confidence in the enforcement procedures envisaged. As a result, we believe it would simply not be used. Alternative arrangements for translations must be agreed—perhaps adopting a single working language, almost certainly English—and new enforcement procedures need to be considered.

4. *Would the Community patent system as devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratifications were made)?*

No. The system as devised in the Luxembourg Convention (as originally drafted or as amended in 1989) is unworkable, for two main reasons: translation costs and problems with the litigation procedure.

4.1 *Translations*

The translation issue remains a major problem—it was in 1975 and 1989, and remains so today. Further, it is a far greater problem for patents than for trade marks. The words and terms used in the specification and claims, and how they are understood by the ordinary skilled addressee, determine the scope of protection, and validity, of the patent. So expert translators, to ensure that the proper words and terms are used, would naturally be essential. Otherwise, the same patent could end up having different effects in different jurisdictions. Use of such translators would naturally be very expensive.

In our view, a Community patent system in which full translation is a pre-requisite would simply not be used. Other organisations are better placed to comment on this issue (including the Chartered Institute of Patent Agents), but from our perspective, a system which used a single working language would have major attractions; and our members would favour the obvious choice of English as that working language.

4.2 *Judicial Arrangements*

There are clearly potential benefits in having validity and infringement dealt with on a "one stop shopping" basis—with one court determining these issues for the whole of the EU. However there are also major risks, particularly if the decision is made by a court with limited experience of patent matters. We accept that this could in theory be overcome by ensuring designated patent courts in all Member States are (where necessary) trained to an appropriate level, but question whether that would be possible in practice, at least in the short term. We also understand that, with a single Community-wide appeal court, the risk of decisions from courts which may be perceived as being inexperienced in patent matters having lasting effects are limited, as those decisions could be dealt with by that single appeal court. However this in itself is going to raise similar difficulties to those said by the Commission to exist under the current system—for example increased costs of having to go on appeal, and the uncertainty whilst the appeal proceedings are pending. Given current delays in obtaining decisions from the Court of First Instance and the European Court of Justice, significant periods of uncertainty seem likely.

There are proposals in the Green Paper which seek to address these issues. However we have grave concerns about these too. The first proposal is to limit the jurisdiction of national courts to matters of infringement, leaving validity to be dealt with by the EPO. National Infringement proceedings will be stayed pending the outcome of the validity proceedings at the EPO and, presumably, on appeal to the CFI and the ECJ.

Our concerns about this proposal are these:

(a) The same court will no longer deal with validity and infringement at the same time. These two issues are dealt with together in almost all EU jurisdictions at present. This has long been, and remains, widely regarded as desirable because the scope of a patent claim and its enforcement are regarded as inseparable; it was reflected in the improvements introduced into the CPC at the 1989 revision.

(b) It will lead to increased costs, as the scope of the claim will have to be considered in two separate sets of proceedings.

(c) There will be inevitable, and potentially very substantial, delay. The main cause of the delay will be the length of time taken by the EPO to make decisions—under the current system, opposition and appeal proceedings routinely taken five years or more to be determined. Secondly, there will be inevitable delay as a result of the need to have two separate sets of hearings—on top of the delays at the EPO in dealing with validity, there would then be further delays in reviving the national infringement proceedings and seeing them through to trial.

The second proposal is to limit the effect of a decision by a national court on validity, so that it affected only the national patent. This, it seems, is in effect the same as the current system. We question therefore the point of introducing the new system, if its effect is no different from that which currently applies.

On balance, we believe that a new central court will have to be established, with jurisdiction to deal with both validity and infringement of a Community patent. The question then is whether that court should deal with disputes at first instance, or whether it should act as a central appeal court. We see major problems with the former suggestion, not least of which is the practical one of how a single court could handle the very substantial number of cases which national patent courts currently deal with. (We estimate that over 400 patent cases are decided by national courts every year, and we do not see how it would be possible for that number of cases could be dealt with by a single court.) There is also the question of procedure. Patent cases are dealt with in a wide variety of different ways by national courts at present (e.g., the UK courts retain discovery and cross examination of live witnesses at trial, whereas neither of these procedures is generally used on the Continent).

We therefore favour the alternative, namely a central appeal court. This would probably have to form part of the European Court of Justice system, possibly forming a new division of the Court of First Instance. New arrangements would need to be adopted so that appeals from national patent courts could be referred straight to

this central court, rather than having to go through the national appeal court structure first. This and other issues, such as procedural rules for these appeals, will need very careful thought, but should not, we believe, present insurmountable problems.

5. *What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)?*

The main weaknesses of the Luxembourg Convention are indeed those set out in the Green Paper, as discussed above. There is also the potential for adverse "knock on" effects in the fields of parallel imports. The introduction of such a system could have an adverse effect on the attitude of the European Commission and the European Court of Justice to exhaustion of rights. We believe it is crucial that this should be avoided, and that there should be no change in current approach, namely that there is no exhaustion as a result of a sale of a product by a third party in a Member State in which there is no patent protection in the absence of real consent.

6. *Is there a case for further action at Community level?*

There is undoubtedly a desire for the patent system in Europe to be improved. The question is whether the improvements should be introduced by amending the existing system (as has been proposed by the patents judges), or by introducing a new Community patent system, or indeed by implementing both proposals. We do not believe that there is an overwhelming body of opinion in favour of one approach over the other. However, on balance, there does seem to be qualified support for further action at Community level. Industry does seem to favour the introduction of a Community patent system, but only if it is cost effective, and there is confidence in its enforcement procedures. If these two conditions cannot be met, any new system will simply not be used. Alternative provisions which may make a Community patent system more acceptable have been considered in the preceding paragraphs. Also, any new Community patent system must supplement, not replace, existing national and EPC systems.

7. *Should the Luxembourg Convention be turned into a legal instrument covered by the EC Treaty (i.e., a regulation made under Article 235)?*

Not in its current form, for the reasons given above.

8. *What are the implications for the development of patent laws and policy at the national and wider international levels. Is further harmonisation desirable, necessary, inevitable?*

The introduction of a workable Community patent system should contribute to greater harmonisation of patent law and practice in the EU. Given the importance of the EU to world trade as a whole, and the extensive use of its patent system, such harmonisation here might also influence patent systems elsewhere, in particular in the US and Japan, and result in greater international harmonisation. This would be desirable, but it is certainly not inevitable. As has been shown by experience since the European Patent Convention was introduced (with the aim of harmonising patent law in Europe) divergent case law can and does still arise, with different tribunals (the EPO and the national patent offices and courts) interpreting provisions of their national laws (introduced on the basis of the same provisions in the EPC) in different ways, both as to validity and infringement.

There will also be implications for litigation procedures. If a new central court is to be introduced, either as a first instance or an appellate court, new central procedural rules will need to be adopted. This is a highly complex and potentially controversial area, on which we do not propose to expand at this stage. However, examples of issues which will need to be addressed include whether the English rules of discovery and cross-examination would be adopted; how far our rules on introducing new evidence on appeal would be maintained; and who would have the right to appear before such a court.

9. *What should be the relationship between any Community instrument and the European Patent Convention?*

Links will clearly have to be established between the two systems. There will need to be provision for converting from one form of patent to another (Community to EPC if, for example, the patentee decided that the cost of maintaining protection throughout the EU was no longer justified, and vice-versa in appropriate circumstances), perhaps limited to a few years after the grant date. There would also need to be administrative links, as the EPO would be the body dealing with applications for both Community and EPC patents.

31 October 1997

Examination of Witnesses

MR CLIFFORD LEES, Past President, MR TIBOR GOLD, Vice President, Chartered Institute of Patent Agents; MR DAVID CANNON, Member and MR MICHAEL CONNOR, Past President, Licensing Executives Society, called in and were examined.

Chairman

67. Mr Connor, Mr Cannon, Mr Lees and Mr Gold, thank you very much for coming this afternoon. Thank you also very much for your respective written contributions which the sub-Committee have found extremely useful. I wonder whether we could start simply by asking you, for the purposes of the record, to identify yourselves and your Association.

(Mr Connor) I am the Past President of the Licensing Executives Society for Britain and Ireland. I am on a number of committees of the International Licensing Executives Society. I am currently a consultant, although for 20 years up until 1990, I was General Manager firstly of the Post Office and then British Telecom, responsible for all their intellectual property dealings.

(Mr Cannon) I am a patent agent, a European patent attorney and a solicitor. Apart from two years in which I worked for City solicitors, I have spent the past 40 years or so working in private practice in a patent agents firm. In my early days I was involved quite a bit in licensing matters—much less so recently—but I have retained an interest in them and remain a member of the LES.

68. You are representing LES?

(Mr Cannon) I am indeed, yes.

(Mr Lees) I am a Past President of the Chartered Institute of Patent Agents. I have spent 42 years in private practice in Yorkshire. I have been retired from practice for four years but have been very active in the affairs of the Chartered Institute during that time.

(Mr Gold) I am the current Vice President of the Chartered Institute of Patent Agents. I am a European patent agent and also a solicitor. After qualification as a patent agent I started my own patent agency which I continued until 1991 when I joined a City law firm where I am currently a partner. I have both small SME clients as well as multi-nationals, but I am representing the Chartered Institute.

69. Thank you very much. Now, can we start by asking you to tell us in what respect a Community patent would, if I can use patent jargon, satisfy a long-felt want.

(Mr Gold) Perhaps I could kick off that ball, my Lord Chairman. I think that one of the immense appeals of a unitary patent system is its great superficial simplicity. Instead of a multiplicity of patents to watch over and administer, you have one single patent covering a very large market of 300 million-plus people, and serving a market which is increasingly integrated. So the world of patents, with all its myriad rules and regulations and national quirks would, it seems—and this is the will-o'-the-wisp—be eliminated and we would enter the sunny upland of simplicity and lack of complexity.

70. So in principle it is highly desirable. The question is on what terms is it to be had?

(Mr Gold) That is so.

71. If we can go back to the 1975 (as amended in 1989) Luxembourg Convention, your organisation does not think very much of it. Can you slightly enlarge on why this is so. I think we more-or-less understand but if you could just tell us.

(Mr Gold) Of course there are plenty of positive features in it but we are particularly critical about two aspects. One is the costs implications of a regime which still requires translations of lengthy technical documents, that we call patent specifications, into the languages of the Member States. Of course, here I must immediately put down a marker of the future enlargement of the European Union. Unfortunately, all the new members knocking on the door have their own language, so we cannot even have the kind of savings of using French in both Belgium, say, and France. Also, the very high cost which we guess will be the cost of maintaining in force a Community patent throughout its lifetime. Above all, we feel that the present arrangements for enforcement and litigation of Community patents carry a lot of uncertainty, mainly through lack of harmonisation of enforcement procedures in the national courts, which will initially be under the hat of Community Courts of First Instance, and will be empowered to deal with the whole Community with the issues of validity and infringement. We do not want to be nationalistic about it, but we do not feel that throughout the European Union expertise among the judiciary—and, indeed, amongst the legal profession—is, shall we say, uniformly distributed. There are certain countries where we would say that competence is high; others it is best to say we are not so sure what level of competence there exists. So we feel that these are the two main drawbacks of the present arrangement: cost and legal uncertainties.

72. It has been put to us—if I can go to the legal answer and come back to translations—that having national courts dealing with these matters, plus the provisions of the Brussels Convention under which the court who first gets hold of the case has to be accorded jurisdiction and other courts have to wait until it is finished, is a recipe for forum shopping and disaster, whether you are a patentee or whether you are an infringer. Depending upon whether you want the proceedings to go extremely fast or extremely slow, you will choose your forum accordingly. Is that a real danger?

(Mr Gold) I believe it is. Again, without in any way saying anything detrimental or nasty about the quality of the judgments in certain European Member States, it is undoubtedly a fact that procedures in some countries—and may I just mention one, Italy—tend to be very slow. I have seen written proposals by professors of law in Italy quite seriously putting forward the idea of the so-called Italian torpedo, under

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which a potential defendant who thinks he might be sued in the United Kingdom will rush into the Italian courts and ask for a declaration of non-infringement, thereby putting a whole stop to the operation of the Brussels Convention because then this Italian court—no doubt efficiently but awfully slowly—would deal with that issue and be seized of the matter thereby putting a complete stop to whatever, say, a very efficient court might do.

73. Yes, we all read the same piece.

(Mr Gold) So we feel that one of the aspects of the Community patent, which perhaps has not received the attention it deserves, is the need—either in parallel or even before—to concentrate on harmonisation of national litigation procedures, to ensure that there is technical efficiency at all levels of the process: that there is roughly similar speed; roughly similar remedies; damages would be roughly at the same level. However, all these issues are, at the moment, rather replete with uncertainties.

74. When you say harmonisation of national litigation procedures, do you really envisage leaving the litigation in the hands of national courts, but through harmonisation getting them to get a move on? That seems to be the most extraordinarily ambitious cultural change.

(Mr Gold) I am certainly not adverse, my Lord Chairman, to be called an idealist. I agree that I am taking a long-term view. But the alternative is equally perhaps idealistic because, as I understand it, the alternative is to wait for the trickle-down effect of this Second Instance Court putting a kind of unifying influence on the national courts. Yes, that is a very attractive idea but, of course, as my Lord Chairman will know, it takes quite a long time to obtain a Community patent. It will therefore take 3χ4 years from the start of any new unitary system to obtain the first Community patents. Then more time will elapse before the first few of those begin to be litigated—and that would have to be done in the national Community courts of First Instance. More time still will be needed before the first such court decisions go to COPAC on appeal—assuming the parties have enough money and financial and other interest to get even as far as an appeal and for the judgments to emerge. So I think that must be at least a ten-year scenario, and I do not see why during the same ten years we should not in parallel do something towards the kinds of things I mentioned, i.e. harmonisation nationally.

75. What do you think of the proposal of a Community Court of First Instance, which could sit in any Community centre and was staffed by a panel of judges drawn from national patent judges?

(Mr Gold) The Chartered Institute has always been wholly in favour of that, my Lord Chairman, but we understood that there were serious legal obstacles to such a central court, which I must confess I do not fully understand. I was present at the Commission hearing on this subject in Luxembourg, where some lawyers who understand these things seemingly did say that they did not think this was a possibility. I must confess I do not fully understand why not.

76. If I can interrupt, what was being said was that it was not a possibility if that court was going to be a Community institution, because the only Community courts are the European Court of First Instance and the European Court of Justice. It would require a new European Treaty in order to create such a court. But as I understand your evidence, you, in any event, take the view that it would be better to do this by a Convention.

(Mr Gold) Yes, that is correct, my Lord. As I say, we are, in a sense, idealists. We would like as good a solution as possible to all these national disparities. If it were possible, by whatever means, to centralise matters at first instance, we would be very much in favour of that. Again, the devil is in the detail, if I may put it that way. So long as the representatives and the judiciary in those courts have the requisite technical preparedness and the willpower to make it work, we would be first in the queue to applaud them.

77. Does anybody else want to contribute to the judicial side of the matter?

(Mr Cannon) My Lord Chairman, LES took a slightly different view in their submissions, in that they were inclined to opt for a Community Court of Second Instance. I do not think that they were uneasy about the suggested Court of First Instance, but mainly they were worried about its practicability. Like the Chartered Institute, they felt that the important thing was to get away from the existing system; to have some control over national systems. If one could get right away from national court hearings and it were, in fact, feasible to have a Community Court of First Instance, they would I think favour it, although this is not really something which has been debated by LES.

78. If you had simply a Community Court of Appeal, a common Court of Appeal, you would iron out the problems of different interpretations of patent specifications and that sort of thing, but you could not do anything to make the national court go any faster. Let us come back to the question of cost. If there has to be translation into Community languages, are you saying—looking at it from your very close perspective—that the proposal is really a dead duck because nobody will buy it?

(Mr Lees) We think the problem of translation costs is certainly a very serious one. It is particularly serious, of course, for the SME who finds at the end of (shall we say) an average sort of patent application—I am talking about the EPC as it stands—that having spent perhaps £10,000 on an application, they then require translations; and with the publication fees and other ancillary charges that come at that stage find that their costs are doubled all at one point. Now, for a very large organisation, it is possible to have budgets. I have dealt for 40 years with essentially small businesses who, to my knowledge, none of them had what could be called a patent budget. Costs are met as and when they arise. Choices have to be made. What happens typically is that when the activation of a national phase of a European application is reached, the small business will come along and say, "Now we have got so far, how much protection can we have for the minimum cost?" Cost is always the overriding

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factor. If they require countries like Austria and Sweden, where the charges are very high, that is hard lines. They prefer to take the countries where for one translation into French, for example, you can have three or four countries.

79. When you say "Austria and Sweden, where the costs are very high", you mean the translation costs?

(Mr Lees) The translation cost and the cost of publication.

(Mr Gold) In fact, in Austria the official fees are very high per page cost of the specification, so even if I get my German attorney to make the translation and sent the German text to Austria, the Austrian national costs would be the same as the German costs, including the translation.

80. This is just a local restrictive practice?

(Mr Gold) Yes, it is a local restrictive practice, no doubt protecting the local patent office as well as the local professions from the threatened loss of business to other national patent offices. Certainly I support the idea that in certain countries, certainly in Austria, the costs of validating an accepted European patent in that country are quite exorbitant; so one's clients can enjoy the selectivity that the EPC now offers them by making choices on application as to which countries they designate. They get a second bite at the cherry on entry into the national procedure. Later on, of course, they get a third bite of the cherry by selectively paying renewals in countries. For SMEs this is a wonderful thing. Therefore, from their point of view, the cost of a Community patent needs to be such that it ought not to cost more than, I suppose, either a United States patent; or, if that is crying for the moon, not more than five national patents in Europe at the moment, or thereabouts.

81. That is where the balance comes, does it?

(Mr Gold) Yes.

(Mr Connor) May I add something. Without translation I think half of the bargain of getting a patent is the disclosure. If the disclosure is in a language which is not available to technologists throughout the Union, then part of that bargain may well have been lost.

82. Why can they not all read English?

(Mr Connor) My point entirely. A common language would help us all.

(Mr Gold) May I come back on that. This is a very pertinent point,my Lord Chairman. There is a lot of pressure from European industry of the non-English kind as well eventually to standardise on English. Really the point is put in a slightly different way. The fact of the matter is that these translations are simply not used. Even in the country set to have the highest usage, which is Spain, the rate of usage is, as I understand it, 4 per cent. As one Frenchman said very eloquently at the Commission hearing in Luxembourg, "If I went to my boss and said, 'I want to spend £100 but only £4 will be useful,' I know exactly what he would say (the effect of whatever it is in French) 'Pick up your P45 on your way out.'" That is the sad part of the translation. One understands the cultural and constitutional issues; the issues that nobody should be the victim of innocent infringement without having understood the document, etcetera, etcetera: but the realities of the matter are that (a) translations are not used; and (b) that any sensible businessman would consider in, say, Spain, talking to a patent attorney first to ask him to do an infringement search. A patent attorney should speak English, French, German, to do the work for him.

83. What is your assessment of the practicalities of getting such a deal?

(Mr Gold) The pressure from the major users at Luxembourg was there for everybody to hear. It was remarkable that the European industrial groupings, with German and French spokespersons, were saying, "We are not talking about the language of Molière or Goethe or Shakespeare." We are talking about technical and legal jargon, (if my colleagues will forgive me), and this is not a cultural issue, this is a technological, research and development issue, and *de facto* English is the language.

Lord Borrie

84. It is easy in this room, because we all speak English, to veer towards saying English should be the one language, and there would be tremendous advantages clearly from what you said for that. I wonder if you could indicate any relativities if one went down the road of instead of there being just English, being the three languages that you have just mentioned or, alternatively, two. I can see the cost would be that much more, but I wonder whether you could indicate how much more and then one might be in a better place to discuss.

(Mr Gold) We, as the Chartered Institute, of course, serve multi-national clients as well as domestic clients. I suppose a quarter of all European patents are taken up by Americans and another quarter by Japanese. Although they often select German representatives, the working language is almost invariably English. So even before the United Kingdom contribution, which is about 9 or 10 per cent of applications, we are already talking about the majority of European applications being conducted for people who are effectively English speaking. The cost: all I can say to you is that in my experience, in my practice, if I can get my translations done by the local patent attorney—who no doubt makes a profit on this because this is what he is in business for—we get charged roughly within a range of £150 to £200 per thousand words. An average mechanical specification, mechanical subject matter, would probably be 3,000 words. Chemical and bio-technology specifications tend to be a bit longer because the law does require a number of examples to be given and 5,000 words would be probably a minimum. I am sure my Lord Chairman will have seen even longer ones. So we are talking about pretty substantial sums. If our Spanish friends would be content, say, with French and English, I am sure the Chartered Institute would be happy to go along with that; but these people tended to say at this hearing that certainly in southern Europe the knowledge of foreign languages is not great; so I

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do not quite know how to answer. We do not wish to be seen as self-serving. We have not publicly ever said, "English only, please," as an institute, although our clients would very much like that.

Lord Goodhart

85. To what extent would it be practicable to say that you did not have to translate? You could register your patent in any of the languages you wanted and then anybody else could come along and look at it, but if they wanted a translation into their own language they would have to pay for it.

(Mr Lees) If I may attempt to deal with this question. There have been various proposals in the last two or three years running the rounds in Europe; indeed, at the instigation of the European Patent Office themselves to try to address the high cost of translations even within the EPC, without thinking about the unitary patent. These can be classified into three types. There is the package solution, which is the favourite of the European Patent Office and certainly of its President, as we found out when we heard him speak in Paris at a symposium last October. The package solution is that the European Patent Office themselves will produce an extended abstract instead of the abstract that the applicant files, which is usually no more than a paragraph perhaps. They will produce something which we think (or hope) are a little more like the old United Kingdom abridgements—those of us who can remember so far back—which would have contained rather more information. This would have to be translated at the applicant's expense at the time of publication of the application, which is 18 months after the original priority date when you file your very first application. That would be translated in all languages and that is all they would get. They would not then get translations into the full specification. The problem with that is that providing all those translations—even of the abstract—can be quite an imposition, particularly on an applicant who may only want protection in three or four countries anyway, so he is going to provide translations of the full text into French and German but possibly no others at all. However, it is a solution. The second solution is the so-called compact solution whereby, by some means, the applicants are persuaded to reduce the length of their specifications. How one would persuade a United States patent attorney to reduce the length of his specification I do not know. We have in our office, my Lord, received an application from America with 280 claims, and the bottom line which reads in large type: "Do not cancel any claims." So they were imposing upon themselves this length. Now the problem there is this. If on the one hand the patent office can say, "You must delete material from your specification," then there are going to be arguments and as soon as there are arguments the cost advantages disappear. On the other hand, if you leave it to the applicant's choice, a prudent agent is never going to cancel any examples, for instance, when he has to support his claims over the full width of the claim. The third alternative, which is the one that is favoured by the Chartered Institute—assuming we cannot get a single language solution—is translation on demand. The intention of this is to meet the point about specifications gathering dust. That you would only get a translation if you requested it, and in the case of the Institute's proposal you pay a fee on request—not necessarily a very large fee—but nevertheless some kind of deterrent; and that the costs of producing the translation are borne out of the renewal fee income, which is quite large overall and some of which we understand is not spent within the intellectual property system at all, although we think it would be much better if it was.

Chairman

86. If I may ask you about the renewal fees. That is the other part of the cost of keeping these things going. Presumably if there was a Community patent, there would be a single renewal fee. What would happen to that money?

(Mr Lees) The essential proposal is that it would go to the European Patent Office. We think it would be reasonable for some money to be allocated from that to the national patent offices. There are some things which we think it is fair, as it were, to subsidise out of that. This is because it is the essence of the Chartered Institute's position that we want to see the continuance of the national patent offices for the foreseeable future, and the European patent system, albeit perhaps with a unitary patent system. If one or more of these die a natural death, so be it.

(Mr Gold) May I add a small footnote to the general philosophical point about renewal fees, which I am sure you know but which it is perhaps worth reiterating. I think that it is healthy to look at renewal fees as a kind of success fee. You only pay it when you have a patent which has been worth obtaining and is now worth maintaining in force. Therefore, it does not make sense to pay a renewal fee purely in hope. You only pay it if you think it is worthwhile. If its administration is disproportionately cheaper than the value of the payment, so therefore the surplus accruing to the patent offices is properly used, this is used for a very worthy purpose which is to make entry into the system inexpensive and not truly a threat to the cost of searching and examining patent applications. The patent system ought, in the Institute's view, to encourage people to take the plunge and to protect their investment into research and development. If that can be done by keeping official fees down at an early stage, by cross-subsidy from renewal fees, that seems to be a worthwhile endeavour.

87. The principle of the indivisible renewal fee for the Community patent, that is something which cannot be compromised, can it?

(Mr Gold) No.

88. May I ask you about two slightly technical points which both of you made. CIPA had a problem about prior secret use. I wondered whether you could briefly explain what the problem was there. I think I understand it. As the law now stands, if somebody has a patent and it turns out that before the priority date of that patent you were doing something which is covered by the patent but you had not disclosed it yourself to

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anybody, then that does not invalidate the patent but you have a special right to go on doing it because they reckon it is not fair to stop you doing something which you were doing already. However, as I understand it, that right is only in relation to your national territory, is that right?

(Mr Lees) That is correct, my Lord Chairman. Our position is that we think that is not correct if one is to have a unitary patent. That it should extend to all countries of the Community—the right to continue with the use or, if I may remind my Lord, the serious preparations for use.

89. Of course. Thank you very much. I think that explains that one. The other point was about parallel imports. I am not sure I did follow that; on the effect that a Community patent would have on the doctrine of exhaustion of rights.

(Mr Cannon) I believe this was addressed to LES.

90. Yes, it was.

(Mr Cannon) May I first emphasise that our feeling is not that the introduction of a Community patent would adversely affect the doctrine of exhaustion of rights, but that it might. There is a risk.

91. Perhaps you might explain what the doctrine of exhaustion is.

(Mr Cannon) I will try to do that, my Lord. Exhaustion is a defence in a patent infringement suit which applies to imports and, in particular, to imports initially from other EC states and nowadays from other EEA states. It results not from a provision in our own Patents Act but from decisions of the ECJ under the Rome Treaty.

92. Perhaps it is easier to give an example. If you have a British patent, that enables you to stop people bringing the patented article into Britain as an import.

(Mr Cannon) Yes, it does, according to our Patents Act.

93. On the other hand, if you have sold the patented article in Germany—you have sold it yourself as the patentee—you are not allowed then to complain that the Germans exported it to England because you have exhausted that right by selling it in Germany, is that right?

(Mr Cannon) That is absolutely so. However, the doctrine is rather wider than that because it does also extend to somebody who puts the goods to be imported, onto the German market with the consent of the patent proprietor. So it is not restricted to marketing in Germany by the proprietor, but also when it is done with his consent. The problem is, what is the scope of the term "consent" in this context? Clearly it covers a case where there is something amounting to express consent—where, for example, the patent proprietor has given a licence to somebody to manufacture in Germany and to export—but the problem is what else does it cover? Does it cover implied consent? In particular, what does the term "implied" in this context connote? Most important—and this is the problem that worries LES particularly—does it cover the situation where the proprietor might have obtained patent protection in Germany or the other EC state of origin but did not do so? Maybe he did not file an application in Germany. Maybe he filed an application and he got a patent granted but decided to let it lapse because he did not want to pay the renewal fees. The problem is: is that, or is that not, consent in the sense of the doctrine of exhaustion? There are two schools of thought.

94. Does that problem arise now? Nobody would suggest today if you did not nominate Austria as one of your countries for a European patent, that this was an implied consent to any Austrian manufacturer making the stuff to be imported into England.

(Mr Cannon) With respect, my Lord, there is a school of thought in Germany which says just such a thing and, as I understand it, that there would be implied consent. On the other hand, there is another school of thought, which finds support in the United Kingdom, which says that there would not be implied consent.

95. You feel that needs to be cleared up?

(Mr Cannon) We do indeed. There is no ECJ decision on it and we would like to see it cleared up. CIPA have suggested a way of clearing it up in their submissions to the Commission on the Green Paper. They would like something in the legislation along the lines of: consent by the proprietor of the patent shall not be inferred in respect of the marketing of the patented product by third parties in countries where the proprietor has chosen not to obtain or maintain a patent. LES have not considered that proposal but, I am sure, would whole-heartedly support it.

96. Thank you very much for that somewhat technical point. May I move on to the border principle again, the question of Convention versus Regulation. Can you tell me briefly what you see as the respective advantages of doing one rather than the other?

(Mr Lees) This is a somewhat complex question. At the moment, the European patent system is administered by the Administrative Council, which is a body set up by the Convention. It is an independent organisation and it is very easily criticised. It is criticised because of its size; all the countries are represented on it. Criticised because under normal conditions it is one country, one vote, and that means that a country which has a really minute contribution in terms of patent application has the same vote as the major countries. Criticised also because in the main, but not entirely, the people who represent their Member States in that organisation are heads of patent offices, and hence are in some ways in competition with the very organisation that they are running. One does not want to make too much of it because after all they are, generally speaking, civil servants operating under some overall instruction, but it does not seem to be the best way of doing things. On the other hand, we have no information, no detail, as to how an EC Regulation would control the thing. Would it be, for instance, a Regulation or some kind of Directive to all the Member States to carry out certain instructions in

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the running of the European Patent Office? Who would be responsible then for changes in substantive law?[1]

97. As I understand it, if it was a Regulation, it would just be the law.

(Mr Gold) You put your finger on it as usual, my Lord Chairman. The whole point about the Regulation is that it is immediately the law of every country, unlike a Directive which first has to be implemented. Unless the Regulation used language which was the same as the European Patent Convention, or indeed the Patents Act 1977, we could have a plethora, a variety of meaning. Mr Justice Jacob in a recent decision commented on (in his view) the foolishness of the Parliamentary draftsman, who did not simply adopt the language of the Directive into the United Kingdom Trade Marks Act 1994, but tinkered with it. So unless the Regulation, the Patents Act and the European Patent Convention, which I am sure no-one here needs reminding is section 130, subsection (7), and which is supposed to say that when in doubt our statute should be interpreted in line with the Convention, broadly speaking; unless the Regulation also reflected that, we would have considerable difficulty in advising people as to what was the correct version of patent law on some very important substantive points. Regulation does bring with it some problems. The Chartered Institute's position of these separate regimes co-existing—the national system, the EPC and the regulation—it would be preferable to try and do this by way of a Convention and then we would all know where we were and have a chance to achieve a result. Regulation sounds as if it could be brought in rather quickly and without perhaps adequate preparation.

Lord Borrie

98. One might add that if Mr Gold and others would agree the advantage for the Convention, that the Convention itself could create a Court of First Instance; whereas, as my Lord Chairman said earlier, the present rules do not permit another Community institution, which would make for problems if there was a Regulation.

(Mr Gold) I agree.

Chairman

99. Your proposal was that if there was to be a Community patent, that should not displace national patents except by the ordinary rules of supply and demand. That is right, is it?

(Mr Gold) That is correct.

100. Is your view the same about the European patent?

(Mr Lees) Yes indeed, my Lord, because of the flexibility that gives.

101. Assuming there is to be a Community patent, do you see the EPO as the right people to deal with the applications for a Community patent?

(Mr Lees) I think everybody has always assumed that would be the case mainly because, of course, it was written into the original 1975 version and at this date it would seem, well, rather foolish to start setting up some totally new organisation.

102. Quite so.

(Mr Gold) If I may add, my Lord Chairman, although there are criticisms of how the EPO functions in certain directions, certainly those criticisms are probably somewhat muted up to the level of granting patents. The facts are that the European Patent Office has been a huge (if you like) commercial success and fulfilled a long-felt want. Numbers speak for themselves and the industry and users have voted with their wallets and have deserted the national systems to a considerable degree. After grant there are creaks in the opposition procedures and appeal procedures and so on, which perhaps I need not elaborate on now, but certainly in terms of the body charged with the search and examination of applications and processing them to acceptance, the EPO has been very successful.

103. One of the complaints made about the EPO is that people sometimes come back and say that they adopt rather cowboy procedures for dealing with oppositions, and that they would prefer to have cross-examination and the usual kind of English apparatus. Is there any serious possibility of getting any kind of Community organisation to adopt the English system on that?

(Mr Gold) My feeling, my Lord Chairman, is that as with all these things, there is a lot of horse-trading and compromises. It would be unrealistic and the Chartered Institute does not believe that it would ever happen, that the Europeans would suddenly find they are out of step with us and fall into line and adopt the full panoply of discovery and full examination of witnesses and so on. I hope there could be a process whereby we would each realistically take the best features of each other's procedures, and some sort of compromise would emerge which would be the least unhappy compromise. That is how I would put it.

104. That is highly desirable.

(Mr Connor) My Lord Chairman, could I add one point. TRIPS was added to the Uruguay Round. That was the first time intellectual property rights had been considered, but it now looks as if it will be an on-going item in agendas. As the majority of applicants using the national and EPO system are foreigners, there may be pressure from that point through the equivalent of TRIPS, in future negotiations through the WTO, to make a court system to the foreigners' liking.

105. Your reference to TRIPS really leads into the last question I wanted to ask you about the possibility of even wider harmonisation of patent law. There is a reference in the CIPA submission to try to get the Americans and the Europeans to agree as to whether it

[1] In a letter of 3 March Mr Lees requested the following be added to his answer to Question 96: "It is not easy to envisage how a Regulation could be administered by the European Patent Organisation which is a body established by the European Patent Convention. The Regulation would not apply to non-EU states. Presumably therefore, the existing European Patent Convention and its administrative Council would have to continue. The problem disappears if the Unitary Patent is introduced by a Convention.".

[Chairman *Contd*]

is from filing or whether it is from when you invented it. Are there any prospects of that happening?

(Mr Connor) Could I answer that because I was one of the UNICE negotiators with the United States and Japan at the time. We thought we had the United States cornered and that they agreed that there would be no discrimination. They led us to believe very strongly that by no discrimination they would adopt the system available in the greater part of the rest of the world. As it happened, you saw they made their system available to the rest of the world rather than changing it. I do not think we are likely to be caught in that way twice.

(Mr Lees) If I may comment there, I was part of a Chartered Institute delegation to the United States in September, when we met our colleagues in the American Intellectual Property Law Association. They explained to us the enormous difficulties that they have politically in getting any change in the patent system. One came away from it rather dispirited in relation to a matter of this size, of changing from first to invent to first to file. There does not seem to be any immediate prospect. They always say that industry wants the change and that we, in the AIPLA want it, but we cannot get it.

Chairman] It sounds rather like anti-trust legislation. I have been to at least three conferences with Americans about trying to sort out our differences. They always have enormous professions of goodwill on both sides, a clear statement of each other's positions, but no change whatever. Thank you very much for coming this afternoon. It has been extremely useful to us. We are very grateful.

WEDNESDAY 4 MARCH 1998

Present:

Borrie, L.	Hacking, L.
Elles, B.	Hoffmann, L. (Chairman)
Goodhart, L.	Wedderburn of Charlton, L.

Memorandum by BioIndustry Association

1. Introduction

1.1 The BioIndustry Association (BIA) is the trade association for bioscience companies in the UK. It represents a wide range of companies, large and small, which use biotechnology and related processes. Members include emerging pharmaceutical, agricultural, diagnostics, bioprocess, gene therapy and bioremediation companies.

1.2 Biotechnology is already providing new therapies for the treatment of cancer, multiple sclerosis, heart disease and other urgent medical needs: more advanced diagnostic tools are enabling physicians to diagnose diseases more effectively and at earlier stages. In agriculture, the potential for new, improved foods which satisfy consumer needs is becoming a reality. All of these products are based on high quality, innovative science.

1.3 The developments which are being made require substantial expenditure (tens of millions of pounds in the case of pharmaceuticals) to develop, to obtain the necessary regulatory approvals and to commercialise. Once those steps have been achieved, it is relatively cheap and easy for a competitor to copy the process and get corresponding approvals.

1.4 The BIA believes that it is essential that patent protection continue to be available to protect invention and to give innovators the opportunity of recouping the high costs of developing and getting approval for new technologies. While the present European patent system, particularly as administered by the European Patent Office, works reasonably well, there are areas in which the system can be improved, and the BIA welcomes this opportunity to comment on the proposals put forward by the Commission. We make no attempt in this submission to comment on each of the matters addressed in the Green Paper, rather, we comment only on those matters likely to be of significance for the BIA's membership.

2. A unitary patent system

2.1 The BIA is not in principle opposed to a unitary patent system, involving a single patent having effect for the whole Community, but sees a number of practical difficulties in the implementation of such a system. *The BIA agrees that the main weakness of the presently proposed Community patent system relates to translation costs; the pan-European judicial principle proposed in the Luxembourg Treaty is good, but may need to be refined.* However, the present system suffers from the translation difficulty to a large extent, and the current judicial arrangements are not satisfactory.

3. Costs

3.1 *Cost Savings in the Present System*

3.1.1 It is important to remember that the present system of the grant of a European Patent by the European Patent Office (EPO) involves a considerable saving in prosecution costs over the use of individual national patent offices to grant separate national patents, once a threshold number of countries are designated (typically about four). Further, a European Patent can give rise to patent rights having a higher presumption of validity than rights granted by a non-examining national patent office.

3.2 *Translation Costs*

3.2.1 The present EPO system has not solved the problem of translation costs. However, it has ameliorated the problem by (a) deferring translation costs from the time of filing to the time of grant and (b) dispensing with translation costs in the event of a patent application being completely unsuccessful. These are real improvements over the alternative, national office system. However, it has to be asked whether the system can be improved still further.

3.2.2 The BIA recognises that there is a tension between the desirability of having a patent system which is not unduly burdened by the cost of translation and the essential unfairness of companies and individuals in European countries being subject to patent rights which are framed in a language they cannot understand. However, biotechnology is perhaps unusual among technical disciplines in that it has a common language, and that language is English. All the major relevant scientific periodicals are published in English. The language of

the United States, by far the most influential country to date in the development of biotechnology, is English. Biotechnology-related European patent applications from Japan are prosecuted in English. English is the native language of the country in Europe with the largest biotechnology industry, namely the UK. Many biotechnology companies from European member states other than the UK chose to file and prosecute biotechnology-related patent applications in English. Indeed, it can be said with some confidence that practically any European biotechnology company which does not have English as its first working language will have English as its second working language, And many European Patent Attorneys in non-English speaking countries who handle biotechnology-related patent matters pride themselves in their ability to handle the English language.

3.2.3 A suggestion, therefore, which would be for the benefit of bioscience companies throughout Europe, is that *whatever solution to the translation problem is decided upon, all biotechnology-related granted European patents should be translated in full upon grant into English if English is not the language of the prosecution proceedings*. If English is the language of the proceedings, then full translations of the granted patent into all the languages of the designated states would not be needed, as in practice all bioscience companies would be able to understand the patent. If English was not the language of the proceedings, any bioscience company which could not readily understand the French or German text would in practice be able to understand the English translation, whichever European country they were from.

3.2.4 If the above proposal is adopted, a variety of different solutions to the translation problem become more acceptable. The basic difficulty with any proposal which dispenses with the necessity for translations into the languages of the designated states (*all* the member states, in the case of a community patent) is that the public are prevented from doing something by a patent which they may not be able readily to understand. Proposals to force a patentee to provide a local language text of a patent before suing, and possibly even to forego damages for infringement before such a text is filed, do not address the practical difficulty that a bioscience company has when conducting an infringement clearance search prior to development and launch of a product. In such circumstances, a company needs to know in advance that it will not be prevented from making and marketing its product; finding out at the beginning of a law suit will often be too late, and the question of damages is often secondary to the cost of development and the ability of a product to be launched or to stay on the market. Also, a translation prepared immediately prior to litigation may be tailored as far as possible to catch the alleged infringement and may lack the objectivity of a translation prepared at grant.

3.2.5 It is recognised that the proposal made above may appear to be self-serving for United Kingdom bioscience companies. However, while UK companies would indeed benefit from its implementation, *so would practically all other European (and indeed non-European) bioscience companies* both from the point of view of the intelligibility of third party patents and from the point of view of the cost savings which would flow from not having to translate the entire text of each patent into a multitude of different languages.

3.2.6 It is emphasised that the obligatory English text proposal made above is not on its own a solution to the translation problem. It needs to be used in conjunction with some other proposal, such as the Luxembourg Convention Arts. 33 and 88 proposal (which provides for the translation of the claims only on grant and the full text before suit) or the "package solution" proposal from the EPO (as Luxembourg Convention proposal, with enhanced abstract on A-publication). Also, as it is an essentially practical proposal, based on the near ubiquity of the use of English in biotechnology, it could only be used in technical fields which as a practical matter operate in one language.

3.3 *Patent Office Fees*

3.3.1 Many of the BIA's members are small or medium enterprises (SMEs), and as such might be expected to be wholeheartedly in favour of the introduction of a lower fee scale for SMEs. However, experience in the United States shows that the savings that might be made are more illusory than real, principally for two reasons. First, the cost of professional representation (and, in Europe, translations) generally means that patent office fees are not the most significant cost in an international patent application filing programme. Secondly, and probably more significantly, many biotechnology companies either have or hope to have collaborations with major companies on inventions which are the subject of patent applications; in the United States at least, this effectively precludes in many cases the relatively small savings that there would be.

3.3.2 For these reasons, the BIA does not see the introduction of reduced fees for SMEs on the lines of the US model to be particularly important or desirable. In fact, *if the EPO has the money to offer reduced fees for SMEs, the BIA would rather see that spent on recruiting and training more appropriately qualified staff to improve the speed of search, examination, opposition and appeals; the same principle applies if the EPO is considering reducing fees for applicants generally*. That is to say, reducing the long period of uncertainty is much more valuable than reduced fees.

4. Judicial arrangements

4.1 In the BIA's view, the need to harmonise the interpretation and validity of European Patents across the European Union (and any other contracting state of the European Patent Convention) is one of the most important issues relating to the European patent system today. This point is illustrated by the apparent divergence of

national views on the question of whether clinical trials of a pharmaceutical constitute patent infringement. It is wholly unsatisfactory for a given European patent to have different effects in different jurisdictions. Not only does the present situation mean that professional advice in relation to infringement and validity have to be sought separately in each designated state, thereby adding to costs, but also the prospect of infringement being found in one state but not another, *for the same patent and the same alleged infringement*, is a major source of uncertainty and a discouragement to do business in Europe and prevents the existence of a common market.

4.2 Simply giving national courts the power to decide on infringement and revocation throughout Europe is not, on its own, the answer. The historically different approaches of the different streams of jurisdiction which would supposedly mingle in the same channel are too far apart for that, even now. (The distinct approaches of the English and German courts to the question of claim interpretation typify the differences.) What is needed is either the establishment of a common forum of first instance for such matters (together with a suitable appellate structure), as suggested by the Commission in the Green Paper, or the superimposition of a common appeals court on the existing system of national courts of first instance, broadly as in the Luxembourg Treaty.

4.3 *The BIA is thus in favour of the principle that there should be a mechanism for centrally revoking a European patent after the end of the present opposition period, but would additionally like to see a mechanism for centrally determining infringement. In the BIA's view it is highly desirable for the same forum to be able to determine both validity and infringement when both issues are under consideration, in order to ensure a consistent interpretation of the patent in suit. The BIA also believes it to be essential for there to be some pan-European specialist patents court, to promote a harmonised jurisdiction.* Precisely how the above principles are to be achieved matters less than the principles themselves. Points to be decided include: whether there should be a community-wide court of first instance having jurisdiction on patent matters; or whether the idea of a community patent appeals court (CoPAC) broadly as envisaged in the Luxembourg Treaty should be revisited; and to what extent the EOP should be involved in post-grant revocation proceedings.

4.4 Because the BIA is in principle in favour of pan-European mechanism, *the BIA does not support leaving jurisdiction for revocation with national courts while confining the effects of their decisions to the territory of the member state in which they are located.* This is effectively the current system, and it is felt that an improvement on it would be desirable.

7 November 1997

Memorandum by the Confederation of British Industry

Q1. *What is the value of patents to United Kingdom industry?*

1.1 The principle behind the patent system is the concept that, in return for an inventor disclosing his invention to the public by means of a patent specification, (so allowing the public to have access to the invention and, subject to the patent monopoly, to make use of that invention), the inventor, the patentee, is given a monopoly for a limited period of time to give him an opportunity to earn a return from his invention. The basis of the system is the principle that an inventor will be encouraged to invent and disclose his invention in return for the monopoly. The current monopoly lasts for 20 years in Europe.

1.2 In practice the system appears to work well. Laws granting monopolies go back at least to Venice in the late 15th century. The principles of the patent system have been adopted in most countries around the world, including the most communist, Russia, and the most capitalist, the United States of America.

1.3 Before a patent is granted it will be examined by Patent Offices to check, so far as possible, that all the alleged invention is new, is inventive over what has gone before (the prior art) and can be applied in industry.

1.4 The most obvious beneficiary of the patent system is the pharmaceutical industry. A chemical entity used in a pharmaceutical medicine may cost only pence to produce. Millions of pounds may be needed to identify a particular substance, test it and get the necessary regulatory approvals to allow it to be marketed. Without the benefit of the patent monopoly, no pharmaceutical company would be prepared to spend the enormous sums of money required to identify and get marketing approval for a new drug. It would too easy for a competitor to copy the drug as soon as it had become successfully established. The logic of this is confirmed by the way in which generic pharmaceutical manufacturers start to supply a successful drug immediately the patent has expired, and the subsequent, frequently very rapid, fall in price.

1.5 Whilst the pharmaceutical industry gives the clearest and strongest example of the benefits of the patent monopoly, all industries benefit in a similar way.

1.6 Although a patentee is granted a monopoly, he cannot impose too high a price for his product. For all save a few seminal inventions there is always an alternative available to solve the problem which the patented invention has solved. Accordingly if the benefit which the patented invention gives to a user is insufficient to justify the price, the user will choose an alternative route.

1.7 Note that a patent does not grant a right to the patentee to do anything. It merely gives him the right to exclude others from the claimed area of invention. Any necessary approvals from regulatory bodies, for example the European Medicines Evaluation Agency in the case of pharmaceutical products, must still be obtained.

1.8 Patents are taken out by the widest possible range of patentees—from the largest pharmaceutical and industrial companies to small businesses and individual inventors.

Q2. *What purposes do the present patent systems in Europe serve for the United Kingdom?*

2.1 The present patent systems in Europe allow applicants for patents, be they UK nationals or others, who apply to national patent offices, or, more commonly, to a central patent office, the European Patent Office (EPO) in Munich, to obtain patent protection. Applications made in national patent offices cover only the territory of the particular office. Applications made to the EPO will result in a number of national patents covering those territories covered by the European Patent Convention (EPC) as are designated by the applicant. ("International" applications can be filed through the World Intellectual Property Organisation (WIPO), under the aegis of the Patent Co-operation Treaty (PCT) to obtain patents in a large number of countries around the world, including national or EPC patents in Europe).

2.2 The system leads to an examination of the patent against the prior art and, following that examination, a dialogue between the applicant and the Patent Office to establish the appropriate scope of monopoly to which the invention is entitled. Third parties can challenge the scope of that monopoly in Europe in opposition proceedings before the EPO or national patent offices after grant, or in proceedings in national courts.

2.3 The systems under the EPC and PCT allow applicants to obtain patents covering designated countries of Europe (or of the world) more economically than would be possible by single applications made to national patent offices. Those benefits apply to world industry, not just United Kingdom industry.

Q3. *What would be the main advantages and disadvantages of patent protection covering the whole Community?*

3.1 As indicated above, existing patents cover individual countries. A Community patent would grant a single patent covering all the countries of the European Community. If infringement was thought to have taken place, or the validity of the patent was to be challenged, the court in such proceedings would decide questions of infringement and validity for all the countries of the Community. This contrasts with the present system under which separate proceedings must be brought in each country where infringement is alleged, and in each country the validity of the patent is open to attack, possibly on the same or very similar grounds. At present a decision in one jurisdiction does not have legal effect in any other jurisdiction, (although it may have a practical effect by influencing the views of the parties on their prospects of success in those other jurisdictions).

3.2 The benefit of a Community patent would be its unitary nature and the fact that decisions on validity and infringement would be binding Community-wide.

3.3 The prospective disadvantages of a Community patent will depend upon the need for any particular patentee to have Europe-wide protection, the costs of getting that protection, and the speed, cost and quality of the decisions in litigation. The view of the vast majority of British industry is that if it becomes necessary to translate patent specifications into all the Community languages there will be no commercial benefit of a Community patent over the existing European patent system and indeed for most patentees it will be disadvantageous.

3.4 Further if the litigation procedures are extremely expensive or difficult to implement, or the quality of the judgments is poor, this too will be a disincentive to the use of a Community patent over the existing systems. "The devil will be in the detail" of the litigation procedure.

3.5 It may well be that smaller businesses, which can include divisions of major companies as well as SMEs, and individuals will wish to continue to obtain national patents in the future because they do not require protection outside their own national jurisdiction or require it only in a small number of countries. The economics of obtaining and litigating patents, and concerns about "exhaustion" of patent rights under Community law, or applications for licences for failure to supply in all the countries covered by the patent, may discourage such applicants as cannot supply the whole Community from obtaining Community patents.

3.6 Accordingly we believe that the existing systems or national patents and patents granted under the EPC must continue for those parties who wish to use them. The Commission has made it clear that it would do this.

Q4. *Would the Community Patent System as devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratifications were made)?*

4.1 No. We consider the Luxembourg Convention has serious defects, in particular the cost of translations into all the Community languages and the procedure for litigation.

Q5. *What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)?*

Translations

5.1 The cost of translations is probably the greatest disadvantage to the Luxembourg Convention. At present an application for a patent in each of the countries covered by the EPC must currently be translated into ten different languages. As additional countries join the Community, each will introduce a further language. If all current interested applicants ultimately join, there would be 25 Member States of the Community necessitating therefore potentially up to 24 translations. Even now industry, with perhaps the sole exception of the pharmaceutical industry, does not apply for patents in all countries covered by the EPC. It selects those countries where it believes the costs of obtaining patents are justified. As the Community expands, and the costs of translation become ever greater, the number of countries in which patents are not obtained will increase.

5.2 Accordingly, if an applicant for a Community patent is to be obliged to translate his patent into all the languages of the Community the system will be of very limited interest and is likely to fail. The only way for a Community patent to succeed will be if the specification needs only to be translated into a small number of languages. European industry has indicated strongly that it wishes to see the Community patent operate in English only with no translation of the specification. They take that position on the grounds that English is spoken by all industry in Europe; that it is the language of technology; that the majority of any prior art which would be relied on to attack a patent will be in English; and that it is the language in which most, probably all, international companies conduct their activities.

5.3 The CBI would, of course, have no objection to this proposal.

5.4 Two possible additional languages are German and French, the other two working languages of the EPO. However, if German and French are to be used as language for the patent specification there is no doubt that other countries will consider that they, too, must also have specifications translated into their own language. Accordingly the only sensible way forward is for a single language and, for the reasons above, English is the logical choice.

Judicial Arrangements

5.5 The complicated judicial arrangements of the Luxembourg Convention are unacceptable to industry. Industry would wish to see proceedings brought before an experienced patent judge in the appropriate court of first instance. They would prefer that court to be a Community court. They would wish any appeal to go directly to the European Court of First Instance with appeal to the European Court of Justice on points of law. We believe that the Commission should discuss the details of Community patent infringement proceedings with the experienced national patent judges. They have said that they would be keen to help.

Exhaustion of Rights

5.6 A further concern to industry is the rules on exhaustion of rights; and whether the advent of a Community patent would have any effect on the existing rules of exhaustion of rights under national systems and the EPC. We would wish any legislation to make it clear that the existing rules of exhaustion under the EPC were not to be widened in favour of an infringer following the advent of a Community patent.

Other Weaknesses

5.7 Other weaknesses of the existing Luxembourg Convention are the expected high cost of renewal fees; and problems surrounding rights of prior use and compulsory licensing which vary from state to state. We believe that these last two should be harmonised. As to rights of prior use, we believe that a prior user should be entitled to develop the prior use right which he has obtained within the full scope of the relevant patent and to transfer that right of prior use to any third parties. Any narrower right stultifies the prior use right. A prior user would be unable to take advantage of obvious developments in the technology he has devised and an individual or a small company would not be able to transfer the right to a larger entity which could take the benefit of economies of scale. Each of these might enable a patentee to squeeze the prior user out of the market.

Q6. *Is there a case for further action at Community level?*

6.1 We support a Community-wide patent system, as envisaged by the Luxembourg Convention, operating throughout all (and not some only) states in the Community, including new Member States, as and when they join. However, the existing national and European patent systems should continue, thus providing choice for users.

6.2 Whilst the Luxembourg Convention can be used as a starting point for developing a Community-wide patent system, the Convention itself should not be pursued further, since some of its provisions require significant modification to make a Community patent system a viable proposition.

6.3 A Community patent system should be administered by a dedicated and specialist court system. There should be a specialist expert Community patent court operating as a Court of First Instance which could be centralised but preferably should be peripatetic so that it could sit in the country of the applicant to the proceedings.

6.4 The specialist court would set its own rules of procedure, with power to order preliminary injunctions, to deal at first instance with infringement and revocation cases. We would suggest this court could also have appellate jurisdiction before a different panel of judges, with appeals on points of law only to the European Court of Justice.

Q7. *Should the Luxembourg Convention be turned into a legal instrument covered by the EC treaty (i.e., a regulation made under Article 235)*?

7.1 Yes.

Q8. *What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable*?

8.1 Further harmonisation is desirable, and necessary on the right terms, but not inevitable.

Q9. *What should be the relationship between any Community instrument and the European Patent Convention*?

9.1 It is necessary to establish links between the two systems and it should be possible to convert a Community patent application into a European patent application at any time up to the point of grant. Conversion in the other direction should also be provided for, so far as appropriate, but should not allow any increase in the scope of protection in any individual state.

9.2 There would be advantages in bringing the European Patent Office into the Community framework, but we would want to maintain the existing European patent system. However, it is important that the European Patent Office should, as soon as possible, become fully in control of its own finances and be able to set renewal fees on European patents, rather than being dependent on a proportion of the national renewal fees.

October 1997

Memorandum by Trade Marks Patents and Designs Federation (TMPDF)

Q1. *What is the value of patents to United Kingdom Industry?*

We believe this question is best answered by an historical analysis.

The UK patent system is rooted in the Statute of Monopolies of 1624, which sanctioned the grant of a monopoly for any "manner of new manufactures". The aim of this form of words was to offer exclusive rights which would encourage new industrial activity and thus enhance the potential for increased tax revenues whilst preventing reestablishment of the monopolies which had been prevalent during the Tudor period. The Statute also drew on experience in other countries, for example Venice in the previous century, where similar measures were introduced to encourage new industrial enterprise.

To the modern ear the phrase "manner of new manufactures" is somewhat confusing. The confusion arises because the Statute was initially aimed not so much at encouraging product innovation as it is understood in the modern sense but at codifying a long established policy of encouraging the introduction of new industries *per se*. Thus, glass blowers, weavers and white paper makers, amongst others, set up manufacturing facilities in the UK and trained domestic craftsmen as a result of such encouragement. The UK economy was largely agrarian in this period, and the promotion of product innovation would have been of little significance in the absence of the industrial infrastructure, which the Statute aimed to generate.

However, the need for the introduction of foreign industrial techniques lessened as UK industrial activity broadened and matured and the system then became progressively focused on new product development within the now established domestic industries. The 1624 Statute was as a result progressively interpreted so as to extend to the protection of product and process innovations, and in due course this because its sole function. In this connection, it is instructive to review the Alphabetical List of Patentees and Inventors for 1617 to 1852 published by the Patent Office, which demonstrates the breadth of industrial development during this period. This illustrates that although such activity reached its peak during the Industrial Revolution, it was as a culmination of two centuries of technical development driven largely by the climate created by the patent system.

At the time of the Industrial Revolution a number of factors, including steam power, realisation of the potential of coal and the development of steel, opened the floodgates of innovation by facilitating the evolution of the old craft industries into modern industrial enterprises. Names such as James Watt, Matthew Boulton, Richard Arkwright and Henry Fourdrinier, for example, all appear in the List as patentees whose inventions founded

major industries. Without the protection afforded the patent system, it is extremely unlikely that they would have felt confident in taking the financial risks necessary to undertake such developments.

The Industrial Revolution in this country became the model for similar advances in other countries, more especially Germany, France and the United States and (more recently) Japan. All of these countries have effective patent systems aimed at generating the confidence essential to the investment of the substantial sums required to fund modern research and development programmes. The United States especially views the vigour of its patent system as one of the main elements which sustains its industrial momentum, and the dominant technical position of many US companies confirms the validity of this view.

The cost of modern industrial research is a matter which justifies further comment. Arising mainly from the complexity of modern technology, research and development costs are extremely high. The leading example is the pharmaceutical industry where such costs amount typically to 10 per cent of *turnover,* with perhaps 1 per cent of this being allocated to patent protection. Much of this work is by its nature highly speculative, with only a small proportion of the investment generating commercially beneficial results. The existence of a system capable of protecting these results is therefore critical to the justification of such levels of research expenditure.

The electronics industry also finds it necessary to make heavy investment in research because of the pace of technical development which it experiences. The rate of change is so great and the development costs so high that business in this field can sometimes only survive by developing a patent portfolio for use as a foundation for co-operative agreements with others. But even in less fast moving fields, investment amounting to upwards of 2 per cent of turnover is considered essential in order to remain internationally competitive and prevent the development of dominant positions by third parties, especially in foreign markets.

To sustain the confidence of companies in industry so that they can reserve to themselves the fruits of this very substantial investment in research, the existence of an effective patent system, and indeed of other intellectual properly regimes, is considered critical. Moreover, because UK industrial success depends heavily on exports, effective foreign patent protection is essential to prevent piracy of the technology embodied in the exported products. In order to fulfil our obligations under International Conventions whereby, *mutatis mutandis,* UK companies can obtain such foreign protection, the maintenance of a correspondingly effective patent system in the UK is essential.

It is also important to understand that recovery of the high cost of research and development by way of sales is essential to funding the development of the next generation of products. Industries find it impossible to recover these costs when lax patent regimes permit infringers to pirate inventions and thereby avoid similar development costs, and displace the patentees goods from the market.

A country that has inadequate or ineffective patent protection will inevitably be injured by extensive infringement. The financial losses suffered by patent owners as a result make it difficult to generate new capital for investment in the industrial base of the country.

The absence of an effective patent system may also inhibit the development of new manufacturing activity by precluding the negotiation of technology transfer agreements in which the patent owner will feel his technology will be secure. As a result employment opportunities are lost, together with the chance to develop a technically skilled workforce. We would emphasise here that this is not merely a theoretical possibility. A number of countries have failed to attract inward investment specifically because their intellectual property regimes have been perceived as being inadequate in terms of both protection and enforcement. In this connection, we also understand that a Chinese Patent Office delegation is visiting the UK towards the end of November 1997. They will be seeking guidance as to how the Chinese patent system might be improved. The visit is being managed by the Comptroller of Patents from whom further details can no doubt be obtained.

Q2. *What purposes do the present patent system in Europe serve for the United Kingdom?*

The benefits of the current position are best understood by comparison between the operation of the pre-existing national patent system and the options now available to patent applicants under the European Patent convention and the Patent Co-operation Treaty.

National patent systems

Patent applications requiring protection in European countries other than their country of residence proceeded by way of an application in each country concerned. The system of national patents is still operative, but is generally used when protection is required only in two or three countries at the most. Wider use can lead to many problems.

Thus, each of these "national" applications has to comply with the idiosyncrasies of the local regulations in terms of documentation, perhaps with the need for legalisation and/or notarisation as well as an early translation into the relevant language shortly after filing. At the date of filing, there will have been no novelty examination in any country and the applicant is required to incur the considerable cost of filing and translation, without

knowing whether relevant prior art will subsequently be cited which may destroy novelty and force abandonment of the application. In this event, the initial expenditure will have been completely wasted.

But even if the invention can be distinguished over the prior art, examination procedures, the speed and form of examination, the definitions of patentable subject matter and the acceptable formats for patent claims all vary between countries. The result is that patents supposedly for the same invention but differing greatly in form and scope can be granted at widely differing dates in different countries. The lack of consistency inherent in the resulting patent coverage leads to great uncertainty and enables competitors to manipulate the commercial situation to the detriment of the patentee's rights.

Apart from the translation costs referred to above, an applicant proceeding by the national route is obliged to employ a local patent attorney in each country to handle filing and prosecution at the patent office, with significant costs being incurred in each case. Moreover, each country calls for the payment of annual renewal fees to maintain the patent in force. Even for a moderate patent portfolio over an average range of countries, the cumulative costs can be substantial.

European Patent System

By comparison, the European system affords many attractions, especially to applicants filling in one of the three official languages (English, French or German). In effect, once granted, a European Patent becomes a bundle of national patents in the states designated by the applicant. An application need only be filed in one of the three official languages, with a single set of documents. At filing stage the application is deemed to be for protection in all of those countries which are signatories to the European Patent Convention, unless a more limited scope is specified. Application and examination fees are paid at this stage, but neither fees nor translations relating to the eventual protection in designated countries are called for at this time. Moreover, the applicant needs to appoint only a single European patent Attorney to handle the case.

Technical and novelty examination of the application is then carried out by the European Patent Office, and if the prior art which comes to light is destructive of novelty, the applications can be abandoned without incurring further expenditure on fees or translations at the national level. If, however, the application proceeds to grant, the application and claims will be of a standard form applicable throughout the designated states. Furthermore, the applicant can elect to enter the national phase with the application simultaneously in all designated countries (or indeed only in those designated countries where the cost is justified commercially at that time) appointing local attorneys as required. This may occur a substantial time after filing, during which irredeemable "dead money" will not have been locked into the application at the national level.

As a result, an applicant who proceeds by the European route avoids unnecessary initial expenditure on national translation, filing and attorney costs, and eventually obtains patents of consistent scope in those countries where protection is commercially justified at the time of grant. Finally, the renewal fees payable on a European Patent having reasonably wide coverage, say in six countries, are also likely to be lower than the fees which in total would be payable to maintain national patents in the same countries. From the point of view of the patentee, the European route for patent protection is both more consistent and more financially efficient than the national route.

The Patent Co-operation Treaty

The Patent Co-operation Treaty (PCT) has a large number of adherents on a worldwide basis, including the United States and most European Countries. It provides for a national filing, usually in the country of the applicant, to be used as the basis for a worldwide filing using the specification from the national filing. A search report from one of the searching offices specified under the Treaty can then be used as a basis for examination of national applications in countries designated by the applicant for protection. The treaty has an interrelationship with the European Patent Convention in that those countries which can be designated for protection under the latter Convention can also be collectively designated under the treaty by way of a European Patent Application. Indeed, certain countries such as Belgium can only be designated under the PCT by way of a European application.

The PCT route also affords a cost saving over the national route in obviating the requirement for searching at the national level. Under certain circumstances it can also provide greater flexibility for applicants. But for an applicant based in Europe, it is not as cost effective as the European route.

Q3. *What would be the main advantages and disadvantages of patent protection covering the whole Community?*

Patent protection for the whole Community should have a number of advantages. For any company which is trading widely in the Community, or has plans to do so, or hopes to expand, Community-wide protection will mean that action against plagiarism can be taken everywhere in the Community, against both locally produced

and imported copies, wherever they are produced or imported. Community-wide protection should also provide a broader base for the recovery of research and development costs, so that generally lower prices should result. Firms which cannot supply the whole of the market themselves can offer licences.

Protection for the whole Community also reduces the problems which can result from Community rules on the exhaustion of rights. If products incorporating a patentable invention are put on the market in a Community state where there is no protection, they will be sold at prices reflecting production costs only, in order to meet competition from copyists. Research and development costs will be recovered only in those countries where patents are held. Community exhaustion rules permit traders to exploit the resulting price differences by buying in countries where there is no protection and reselling in countries where protection supposedly exists and where prices are higher, thus reducing the patent owner's ability to recover his development costs.

Patent protection covering the whole community can be secured at present by applying for a separate national patent for each Community State. This can be done state by state (thus involving separate patent attorney costs for each state and heavy administration from the outset) but is most easily done by applying for a European patent from the European Patent Office (EPO). A major disadvantage at present is the enormous cost, since, in addition to the EPO's very large fees, the patent when granted has to be transferred to the national systems, involving heavy translation costs and sometimes large administrative fees. A separate agent has to be employed for each state from the grant stage, adding greatly to costs. Subsequently, annual maintenance fees, which in some states are very high, have to be paid in each state, with associated administration costs. If there is subsequent litigation, this will proceed independently in each state concerned, with further high costs, uncertainty and delay and the possibility that results will be inconsistent. In particular, the patent might be held invalid in some states but not in others.

An effective Community patent system should provide the advantages of homogeneous, unitary, Community-wide protection, indicated above. Judicial arrangements in particular should be such that the Community right would need to be litigated only once, rather than separately in each state concerned, so that findings on validity and infringement would apply to the whole Community. However, the high costs and other disadvantages of the systems presently available for securing wide protection in the Community, and of the dormant Community patent established under the 1989 Luxembourg Convention, must be avoided.

While a good Community patent system should be of considerable benefit to small and medium sized enterprises (SMEs) which hope to expand, there will be some who do not wish to expose themselves to the added complications (and possibly greater risk of attack) of a Community system. For them, the national systems should remain available.

Q4. *Would the Community patent system as devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratifications were made)?*

No. The system of the dormant 1989 Luxembourg Convention involves massive translation costs and an untrustworthy legal regime, containing great potential for delay, uncertainty and unnecessary expense, which allows the validity of a Community patent to be challenged before local courts, many of which have little if any experience of major patent cases.

Q5. *What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)*?

The main weaknesses have already been mentioned in the answer to question 4 above. The translation requirements alone are very onerous, involving the invalidation of the whole patent if even only one translation is missing three months from the mention of grant in the Official Bulletin. This alone is sufficient to ensure that the system of the 1989 Luxembourg Convention would be very little used. On judicial arrangements, the Federation is convinced that many national courts, which have the authority under the Convention to hear infringement cases and counterclaims on validity, are completely lacking in relevant expertise. (It should be noted that in many Community states, patent cases are not reserved for a very small number of expert courts as in the UK, but can be heard in district courts). Moreover, in many states, courts dealing with the complex matters take an inordinately long time. They should not be involved in decisions concerning infringement and validity of Community patents.

Other weaknesses or risks include:

The high fee levels as currently planned, particularly the levels planned for renewal fees. It is not a reply to say that these will be no more than the sum of the current fees in member states, since the present system provides plenty of flexibility, to apply for and maintain patents in only those states of real interest;

Rights of prior user, compulsory licensing practice, licence of right practice and approaches to government use differ among Community states and may cause difficulties. The Community patent should be unitary;

The existence of a Community patent should not result in an even more rigorous exhaustion regime being applied to national patents.

Q6. *Is there a case for further action at Community level?*

Since the Federation considers that it would be of considerable advantage to be able to secure a single, reliable, high quality, patent having uniform effect throughout the whole Community, it believes that there is a case for action at Community level.

However, the action must be aimed at providing a system with real, practical advantages. Modest adjustments to the unacceptable 1989 Luxembourg Convention will not suffice. The Community patent must be inexpensive to secure and maintain, it should be subject to only the minimum of procedural requirements at both the application and grant stages and should be easily administered. Since English is the language of science and technology, it would be sensible for all applications for Community patents to proceed in English only and to be valid, everywhere in the Community, without subsequent translation after grant. Litigation at first instance should be conducted before a central Community patent court staffed by expert patent judges and having its own rules of procedure. Procedures should be such that costs are reasonable. The court could be peripatetic.

It is essential that the ability of national patent offices to provide a full service for filing; grant and revocation procedures; and access to patent information to national firms, particularly SMEs, should not be jeopardised.

Q7. *Should the Luxembourg Convention be turned into a legal instrument covered by the EC Treaty (i.e., a regulation made under Article 235)?*

The existing 1989 Luxembourg Convention in its present form should be abandoned. A new instrument establishing an acceptable Community patent should be adopted as a Regulation under Article 235 EEC. A free standing convention would be too inflexible to adjust when developments in the approach to patentable technology call for adjustment, would probably be very difficult to get ratified and would be awkward to accommodate in enlargement negotiations.

Q8. *What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable?*

There is already a great deal of harmonisation of national intellectual property laws within the Community and a number of regulations establishing Community as distinct from national measures. Others are under consideration. The Community member states already work closely together on intellectual property issues. A resolution on the harmonisation of patent laws has, in general terms, been implemented by the member states. The member states also work closely together in international fora, such as the World Intellectual Property Organisation (WIPO) and the World Trade Organisation (WTO), where harmonisation of intellectual property norms is discussed. It is inevitable in a common market that intellectual property norms and standards in the different member states move ever closer together. It is also highly desirable that they should do so, so that innovative companies encounter similar approaches throughout the Community.

A Community patent will inevitably mean that national substantive patent law must be harmonised with it, but as noted above, this is already largely the case. National policy will be constrained by the Community dimension, but again this is already largely the case. Policy will have to be developed in co-operation with Community partners.

While harmonisation of substantive matters has largely been achieved in the patent field among Community member states (and others), further harmonisation is highly desirable at the level of procedure. At the international level, a Patent Law Treaty is currently under negotiation in the WIPO framework, but the Community needs to go further. If formal requirements and handling procedures for applications could be standardised, it would be much more straightforward, and less expensive, for applicants to seek protection in several states. Within the Community, requirements concerning representation need to be standardised and made as flexible as possible. A single address for service, anywhere in the Community, should suffice. There are many other such matters which should receive attention.

Q9. *What should be the relationship between any Community instrument and the European Patent Convention?*

As proposed in the existing 1989 Luxembourg Convention, The European Patent Office should carry out the examination and grant of a Community patent in accordance with the procedures of the European Patent Convention. Substantive law on patentability should be the same in the two systems.

An application for a Community patent should be fully convertible to a European patent (designating particular member states) to the time of grant, and thereafter if this facilitates the correction of some procedural problem. (The obvious problem under the current convention is failure to file all translations, though this problem should cease to exist under the Federation's proposals for a future Community patent.) Conversion from a European patent application to a Community patent application should also be possible in appropriate circumstances.

It will be worthwhile to investigate the possibility of introducing centralised litigation arrangements dealing with the validity of European patents. If this proves to be possible, the central court for Community patents might be able to handle it.

There could be advantages in taking the European patent system as a whole into the Community legal framework, provided that important advantages of the existing legal order, such as being able to secure a bundle of national patents through a single European application, are not lost. Clearly, if the EPC were to be replaced by a Community instrument which could be modified as a result of a qualified majority vote and where modifications so approved would be immediately applicable without ratification by member states, then the system would be able to respond much more flexibly and rapidly to international developments and regional needs.

Under any new legal order, the EPO must be empowered to take full control of its own finances and to set renewal fees on European patents, rather than being dependent on a proportion of national renewal fees remitted by Member States (as at present) or on the Community budget authorities—as might be suggested if it were to become a Community body.

30 October 1997

Memorandum by Zeneca

RESPONSES TO QUESTIONS

Q1. *What is the value of patents to the United Kingdom industry?*

Technology based UK industry, particularly the chemical and bioscience industries, invests heavily in innovative research. Increasingly the UK (and European) industrial base will depend on innovations in new technologies. To provide continuing real growth for UK industries a climate of innovation needs to be encouraged. A strong, effective and efficient patent system fosters and protects such innovations contributing to increased competitiveness versus labour-intensive economies. This in turn stimulates further investment in research and helps UK (and European) industry to maintain a competitive position against the US, Japan and the "Tiger" economies of Asia. Without adequate protection investment in innovative research in the UK would deteriorate.

Patents disseminate technical information and act as a springboard for further innovation for UK (and competitive) industry.

Q2. *What purposes do the present patent systems in Europe serve for the United Kingdom?*

There is little doubt that since its implementation users have generally been satisfied that the EPC has rationalised, harmonised and improved the quality of granted patents in European countries. The EPC provides a system for granting patents which is well used, familiar and which generally is preferred to the alternative national systems. If required, the current combination of the EPC and the national patent systems should continue to provide the necessary degree of protection into the future and promote continued innovation and industrial growth within a successful, modern European economy. The quasi-harmonization of national laws and the EPC encourage UK industry to seek protection throughout more of the Single Market. However, the major disadvantage of using the EPC as a means to obtain granted patents is that, even after the fee reductions implemented in July this year, it is still too expensive and this prevents Single Market coverage. Furthermore, the costs associated with filing translations of the full specification for national phase entry are unnecessarily burdensome.

It is important that the National Patent Offices are retained and remain viable as an option for applicants requiring protection in only one or a few Community countries. National patent Offices could also provide valuable services as receiving and search offices for Community patent applications.

Q3. *What would be the main advantages and disadvantages of patent protection covering the whole Community?*

Advantages of a Community Patent:

- reduction in the level of costs, particularly by abolishing designation fees and significantly reducing renewal fees when compared with national renewal fees. The target should be to achieve a level of costs similar to those incurred in obtaining and maintaining a US patent;
- provision of wide geographic cover at reasonable cost;
- removal of a major source of problems with exhaustion of rights;
- removal of one source of partitioning of the Market;
- better legal certainty provided the definition of infringement is clear, and infringement and validity actions are heard together, courts are of a high standard with specialist judges and operate under common rules and procedures.

Disadvantages of a Community Patent:

- it does not extend to certain important countries, such as Switzerland. Non-Community countries could be covered by designating them as adjuncts to the Community Patent application and entering the national phase at grant in much the same way as via the EPC at present;
- the translation requirements of the Luxembourg Convention and the associated costs will make it too expensive;
- it will not be used unless associated costs for obtaining and maintaining the patent are substantially less than the costs of obtaining national patents;
- potential demise of EPC and national patent systems;
- the currently proposed judicial provisions.

Q4. *Would the Community patent system devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratifications were made)?*

No, not in its present form. The associated costs would be too high and the legal provisions are unsatisfactory.

Q5. *What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)?*

Excessively high costs of translation into all Community languages and the uncertainty associated with the use of national courts with little or no experience of jurisprudence on patent matters, and the uncertainty and potential delay caused by separate infringement and validity proceedings are fatal weaknesses.

Q6. *Is there a case for further action at Community level?*

Yes. The Community needs a harmonized court system which is secure and reliable, which can deal efficiently with the issues and in which the certainty of, and confidence in, the judicial process is assured. The Community court system must therefore have consistent standards and provide expert review at first instance with the right of appeal to a higher authority on the law and facts and further appeal to a yet higher authority on points of law.

For actions involving a Community Patent, a First Level Court should be established as a subsidiary court within the ECJ and used to decide infringement and validity issues together. The First Level Court must have effect across the Community and be able to administer pan-Community remedies. It must be governed by common rules and procedures and be of a similar level to that of the present EPO Boards of Appeal. Preferably, it should be staffed on a delegated basis by judges with special experience in patent law from the national Courts. Typically, it might comprise three specialist judges, with one judge from the Member State in which the proprietor was domiciled or from the Member State in which infringement occurred. The First Level Court would normally be centrally based in Luxembourg, with the language of the proceedings being that of the patent.

Q7. *Should the Luxembourg Convention be turned into a legal instrument covered by the EC Treaty (i.e., a regulation made under Article 235)?*

The Luxembourg Convention in its present form is unacceptable and would not be used because the costs of obtaining patents under it would be too high and the legal provisions are unsatisfactory.

A new Community Patent law preferably should be harmonized under a new international convention. This could provide a workable and cost effective solution to the translations problems and allow the establishment of a Community Patent Court. A regulation made under Article 235 would not be acceptable because it would be restricted to the present scope of the EU.

Q8. *What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonization desirable, necessary, inevitable?*

The existing national and European patent systems have successfully served the needs of industry although reduction in costs and improvement in legal certainty would be welcomed. If a new Community Patent system is introduced the national and European patent systems must be retained. This will provide the flexibility required by both large and small industries. A harmonized court system is necessary as discussed in Q6.

Further harmonisation is desirable—the USA must introduce first to file. The European Community must have the same criteria for patentable subject matter as enjoyed by the USA and Japan. Further harmonisation of procedures should be encouraged.

Q9. *What should be the relationship between any Community Instrument and the European Patent Convention?*

The EPC should be retained as part of any Community Patent system. The application process should remain as for the EPC and at grant the proprietor has the choice of whether to elect national phase entry in a few Member States as with the present EPC or elect a Community Patent covering all Member States. This process will provide a single, cost effective and already well tested pre-grant procedure, which has the merit of avoiding

early translation costs. Once granted a Community Patent should not be convertible into a European patent, or *vice versa*. The possibility of being able to extend the cover provided by a granted European patent by converting it to a Community Patent would lead to unacceptable legal uncertainty for the public.

7 November 1997

Examination of Witnesses

MR ROBIN NOTT, Confederation of British Industry, DR STEPHEN C SMITH, Zeneca, MR F BLAKEMORE, Trade Marks Patents and Designs Federation, and MR ANDREW SHEARD, BioIndustry Association, called in and examined.

Chairman

106. Thank you very much for coming this afternoon, Gentlemen. Thank you also very much for the written submissions of your respective organisations, which the Committee has found very helpful. Would it be possible, before asking for any opening statement, simply for the record for you to identify yourselves and the organisations which you represent?

(Dr Smith) I am Dr Stephen Smith and I am the group intellectual property manager for the Zeneca group of companies.

107. Thank you. Mr Blakemore?

(Mr Blakemore) My Lord Chairman, I am Frederick Blakemore and I represent Trade Marks Patents and Designs Federation. My background is that I am a vice-president of the organisation and I have in the past spent considerable time in industry, particularly the information technology industry.

108. Mr Nott?

(Mr Nott) My Lord Chairman, I am Robin Nott. I represent the CBI. I am a solicitor in private practice in the intellectual property field and I am also a patent agent.

109. And Mr Sheard?

(Mr Sheard) My Lord Chairman, I am Andrew Sheard. I am a partner in the firm of Kilburn and Strode, a patent firm. I am here today representing the BioIndustry Association. My background is in the natural sciences, particularly biochemistry, and most of my practice from day to day is with biotechnology and pharmaceutical companies.

110. Thank you very much. Now would anyone like to make an introductory statement? Mr Blakemore, I gather that you wish to do so?

(Mr Blakemore) My Lord Chairman, yes, thank you, I should like to make an introductory statement. First of all, we very much appreciate the opportunity to give evidence to you today and we very much welcome that. The position that the Trade Marks Patents and Designs Federation has is in representing industry broadly, that is to say, all sectors of industry, as owners of intellectual property. We were founded in 1920 so that we are one of the oldest such federations in the world. We work very closely with the CBI and, indeed, we represent the CBI on many matters at the European level in connection with decisions taken by European industry. In that regard, my Lord Chairman, we would like first of all to say that we take essentially a very practical view of the requirements that would be regarded as satisfactory in any Community patent. First of all, the proposals for a Community patent should in essence represent as far as we are concerned something of value which will be offered in a manner which is different from what might be offered by any of the existing systems, in other words, to make it attractive for users to apply for them. In that regard there are a number of elements in the proposals that we regard as particularly important, first of all in regard to costs. We feel that the aggregate fees which we would have to pay for such a patent ought to be no more than three times the corresponding national fees that might be payable for present forms of patent. We would also expect to enjoy lower translation costs and lower attorney fees. If one were to accept a Community patent with a full translation regime it is quite apparent that the number of translations that would be required would make it wholly unacceptable from a cost point of view. We also regard it as important that any such patent should be available without any omissions in the coverage of the patent, in other words, what is known as a patent without holes.

111. Omissions as to countries covered?

(Mr Blakemore) As to countries covered, yes, that is right. We also finally look to a system which would give us legal certainty in connection with the enforcement of the patent. We would not want to use a system which we did not have confidence in when it came to enforcement, otherwise the risk would be far too great in relation to the opportunity that we might have today by obtaining national patents. We do value the opportunity to get patents through the current European system and the national patent offices, so we would not seek to have a Community patent which displaced the opportunity for obtaining patents either through the European Patent Office or through the national patent offices. In a nutshell then, my Lord Chairman, those are some of the practical requirements that we would like to suggest as making a Community patent attractive.

112. Thank you very much, Mr Blakemore. The present position is that although there is not a Community patent one can get very large coverage through the European Patent Office. Can you tell us to what extent United Kingdom industry goes for coverage through the European Patent Office rather than simply relying on national patents?

(Mr Blakemore) My Lord Chairman, it varies very much from sector to sector, but the average appears to

[Chairman *Contd*]

work out at approximately three or four countries to be covered. The important thing is that you want coverage in those countries where your markets are largest or where you face the strongest competition. It may be sufficiently effective in some technical areas such as computer technology, for example, to have coverage in only three countries because the markets in the other countries are not large enough to sustain competition that would concern you. Also that particular industry cross-licenses to a great degree, so the commercial importance of a patent in the small countries is much lower. If one were to move to another sector such as the pharmaceutical sector, then the coverage generally speaking is wider because individually the patents are more important in protecting market share.

113. So there are a number of sectors, from what you say, which would see no particular advantage in going for full coverage or, indeed, in some cases even for going beyond national coverage?

(Mr Blakemore) That would be true if the cost benefit, if I may put it in those terms, was not attractive. Of course, if you are given the choice at the same cost and with the same degree of certainty of full Community coverage or coverage only over a small proportion of the Community, then, of course, one would go for the broad coverage.

114. Naturally.

(Mr Blakemore) That is right, and consequently what we are looking for and one of the requirements that we would have is that we would look for a greater cost benefit to make the system work.

115. Yes, but in order to look at both sides of the equation we have to try to form some view about; the extent to which the additional benefits are being able to get a Community patent covering the whole Community, to what extent they are sufficiently important to be worth paying the additional costs on the other side of the equation. Therefore, I would be grateful to get some idea of what you thought those additional benefits would be. As I understand it, you said that for certain sectors there would not be any, or not significantly, anyway?

(Mr Blakemore) Not significantly, no.

116. In theory, obviously, there are, the more the better?

(Mr Blakemore) Yes, that is right.

117. But not significantly. Which sectors would significantly benefit from being able to get the larger coverage?

(Mr Blakemore) I think the chemical and pharmaceutical sectors particularly. My Lord Chairman, I think that it may be appropriate if you were to direct questions on that to Zeneca in particular.

(Mr Sheard) My Lord Chairman, I can speak for the bioindustry. Very often people applying for patents in this sector will apply throughout Europe. The patents are of value, as Mr Blakemore said.

118. The European Patent Office nominating every country?

(Mr Sheard) Mostly I would say that is the case, my Lord Chairman, yes. The advantage that we would see from having the thing operate as a Community system rather than the bundle of national patents that you get out of the European Patent Office is the certainty of uniformity of the end product: the fact that you have the one patent that means the same and is enforced the same way in Germany and in the United Kingdom.

119. Yes, I see. Mr Nott?

(Mr Nott) My Lord Chairman, I think that it is fair to say that the engineering industry will also very often find it advantageous because it may well be possible for competitors to come into countries where you have no protection and you would like to be able to stop those if you could get a patent at an economical price and enforce it.

120. Right. What about Zeneca?

(Dr Smith) What I would say, my Lord Chairman, is that people will have a perception that perhaps Zeneca is a pharmaceutical company or, indeed, a pharmaceutical and agrochemical company, but in fact we are an aggregate of companies and some of our businesses in the specialty chemicals area are actually almost of a size which is equivalent by anybody's definition to an SME. Now it seems to me that one of the important things for everyone to bear in mind in this discussion is that we are not talking about a replacement; we are talking about an additional opportunity. Indeed, if the cost were such that the actual form of protection would be available to all types of applicants, then it would be a system that would be used. The real point of contention, of course, is in the costs associated with translation. No doubt there will be an opportunity to talk about that later, my Lord Chairman.

Chairman] Yes, certainly, thank you. Lord Borrie?

Lord Borrie

121. I wonder, my Lord Chairman, whether I may ask this. I was fascinated by the average—I think that that was the word used by Mr Blakemore earlier on in his points, saying that the aggregate fees for the Community patent (and I an not sure whether these were his actual words) ought to be no more than three times the national fees?

(Mr Blakemore) Yes.

122. Then I related that to the various industries and the differences between, say, chemical and pharmaceutical on the one hand where wide coverage was needed and the computer industry where it is less needed, and I was just wondering whether averages are much of a help to us in this because each industry wanting a patent for its intellectual property is going to be different. I think I will finish on that point. I wonder whether Mr Blakemore can comment further on that?

(Mr Blakemore) Yes, certainly, my Lord Chairman. I think that our position on that would be that any Community patent should be attractive to all industries and therefore if it was only made attractive

[Lord Borrie *Contd*]

to those patentees who had a requirement across Europe, then it would end up as, if you like, a very sectoral type of patent system, which we think would be wrong. We think that it should be seen as an opportunity to go via a different route. It should be an attractive, viable alternative for all industries, and on average in the discussions that we have held internally this figure of three times the national seems be the point at which most companies would recognise it as an attractive opportunity.

Chairman

123. Just coming now to the Luxembourg convention in order not to go over familiar ground the two main objections which have been put to us both by yourselves in your written submissions to us and by other witnesses are first of all the cost of translations, which we will come to in a moment, and secondly, a court system under which on the basis of the national court which you first get any court throughout the Community could revoke a Community patent with Community wide effect. Those are the two main objections. Are there any others which you have to the original system?

(Mr Blakemore) My Lord Chairman, yes, I think that there are at least two more. The Luxembourg convention would not have settled any difference in patent practice in such areas as prior user provisions and compulsory licence procedures, and there was and there is still the danger of a more rigorous exhaustion regime which is something that we feel should be dealt with in any new instrument and certainly was not dealt with in the Luxembourg convention.

124. When you say, a more rigorous exhaustion regime, it was explained to us by witnesses at a previous hearing that at any rate what they had in mind as the problem about exhaustion was that the failure to apply for a patent in a given country might be taken as a consent to your product being made there, with the result that it could then be imported in to the rest of the Community. Is that what you have in mind?

(Mr Blakemore) My Lord Chairman, that is what we have in mind, and what we would like to see is an opportunity to write into any new instrument specifically a provision which would prevent that happenstance,

125. I am sorry, I forgot what the other one was—oh, yes, it was about compulsory licensing. What is the problem there?

(Mr Blakemore) The provisions are different in different countries and therefore if one is trying to administer or deal with a portfolio of patents throughout the Community one would want to be able to envisage a closer harmonisation in relation to such matters as that.

126. Yes, thank you, and then there was a third point, I think?

(Mr Blakemore) We had prior user.

127. Yes, prior user, and what is the problem there?

(Mr Blakemore) The problem is that in some countries the circumstances under which a prior user obtains rights under a patent would be different from one country to another.

128. Oh, I see, you mean the provision that in this country if you made secret use of the process before somebody else patents it you can go on doing it in this country but not in any other country?

(Mr Blakemore) The terms under which you can do it would be different, my Lord Chairman. I am not saying that you could not do it in other countries, but the terms would be different.

129. You would have to go to their law and find out what it was?

(Mr Blakemore) That is right, yes.

130. And you want uniformity on that?

(Mr Blakemore) Yes, I am saying that the Luxembourg convention failed to address these points and we feel that if we were to have a new instrument, then we ought to take the opportunity to deal with them.

131. May I just make the point here that not all members of the Committee are lawyers and the reason why when I spoke about prior user I was talking about prior secret user, which sounds rather strange, was because if it had not been secret user it would have invalidated the patent because it would have made something that was already publicly known. Mr Sheard

(Mr Sheard) My Lord Chairman, I wonder whether I may just interject at that point. I think it would be very desirable also just to stress the point that any right of secret prior user should have Community wide effect rather than be judged on a country by country basis.

132. Yes, and there has been a suggestion to us that if that were not the case it might be regarded as an infringement of Article 30.

(Mr Sheard) I see, yes.

(Mr Nott) My Lord Chairman, on the question of compulsory licences at the moment compulsory licenses are granted on a national basis and are frequently limited, certainly in this country, to the particular nation. If compulsory licences were to be granted on a Community basis under a Community patent, that could effectively destroy the benefit of the patent to a small manufacturer in a single country because a major competitor in another country who had got a compulsory licence would then be able to sell his goods throughout the Community. It is equivalent to the exhaustion point which was raised earlier.

133. Thank you. Now, having dealt with those additional points, may we come back to the main ones and may I ask, what is your favoured solution to the translation problem? Of course, you will all say "English".

(Mr Blakemore) My Lord Chairman, with respect, I know that one may smile at what quite obviously is a very attractive and convenient arrangement for us to specify English only. We envisage a procedure

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whereby one could file a patent application in any language of the Community, but then proceed through the stages in English only. Now, we are in fact comforted by a considerable degree of support from colleagues in other countries in regard to the use of English. The reason why is that——

134. If I may just interrupt you for a moment, Mr Blakemore, we have heard quite a lot about this support, and particularly the way in which it has been put to us is that industrial interests in other Member States would actually prefer English.

(Mr Blakemore) Yes.

135. And that the government organisations have not actually stood up and objected to this although they have heard this put forward. Where can we find any evidence of this?

(Mr Nott) My Lord Chairman, may I come in on this?

136. Yes, of course, and we will come back to you, Mr Blakemore, I am sorry for interrupting, but I felt I must nail this question of where these favourable views are to be found.

(Mr Blakemore) Yes, of course, my Lord Chairman.

137. Mr Nott?

(Mr Nott) My Lord Chairman, at the hearing in Luxembourg in the discussions on the Community patent, which I assume you know about, a number of organisations, including the European Employers Federation, the Chemical Industry Federation, the European Pharmaceutical Industry Association, the French CBI, the German CBI and the European Crop Protection Agency, who are the people responsible for seed growing, were all interested in the idea of having a patent granted in English.

138. Is there a transcript of this anywhere? Did they put in memoranda to this effect?

(Mr Nott) I think, my Lord Chairman, that they will all have put in submissions and I could try to see whether I could find copies of those and let you have them.

Chairman] We would be grateful for that because it is quite an important point from our point of view.

Lord Borrie] We are not actually receiving evidence directly from those bodies.

Chairman

139. No, but it would be extremely helpful if we could get hold of those.

(Mr Nott) My Lord Chairman, I will if I possibly can.

140. Thank you. Now, Mr Blakemore, back to you?

(Mr Blakemore) That, as I explained, my Lord Chairman, is our preferred solution and we are pressing strongly for that. The reason why we feel strongly about it is that the costs of translation are so huge that as the Community expands the number of languages, of course, will increase substantially and the translation costs in the end would completely swamp the system and would make it unworkable if one were to compromise even to a relatively small extent.

141. When you say relatively small extent, you mean like the European Patent Office three languages?

(Mr Blakemore) Well, my Lord Chairman, we could possibly live with a restricted regime, but we are not hopeful that from a political point of view it would be acceptable to limit to three because the argument would inevitably be raised, "Why not ..."——

142. " ... us"?

(Mr Blakemore) Indeed, "Why not us", so there is a logic in choosing one language and it may be politically acceptable because English is overwhelmingly the language of science and technology. This is not a cultural matter. I was reminded this afternoon that one area where we already use English exclusively in Europe is in air traffic control.

143. Certainly, yes.

(Mr Blakemore) I think it was the Dutch judge who came to talk to us in the United Kingdom who cited that as an example where there is no political problem about the use of an individual language in one area of activity. Therefore, we feel quite strongly that English only ought to be regarded as a strong candidate. We feel that it would be unwise to compromise on that.

144. May I ask Zeneca their view on translation now. How much of a proportion of the cost of the sorts of patents that you are interested in is translation costs?

(Dr Smith) My Lord Chairman, the answer to that is partly in this document which I think that you have all seen.

145. Yes, would you like to take us through that then, Dr Smith?

(Dr Smith) Yes, my Lord Chairman, if I may. This is a set of estimates which has been prepared in the context of Zeneca, and Zeneca's rates that it pays for translations in different countries. What it actually shows is the situation at the moment with all 17 European Patent Office states, the amount that would be paid for translations for a specification which is 30 pages long, 80 pages long and 150, against the total costs and the assumptions for carrying out these estimates as shown on the second page of the document. Basically the total costs include all of the filing fees and the fees up to the grant of the patents. Therefore, you can see from the final columns on the right of the table the percentage of the overall cost that is attributable to translations, and the current example at the moment where we have 17 designated EPC states, leading ultimately to 16 translations, and 90 per cent to 98 per cent of the total cost of getting patents in those countries will be in producing translations.

146. When you say, getting patents in those countries—and it is an astonishing figure—is that a percentage of the total cost of prosecuting the patent altogether?

(Dr Smith) My Lord Chairman, in and through a European patent route, yes, so it is a very large figure.

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147. It does not look as though the patent agents are getting all that much?

(Dr Smith) It does not look as though the patent authorities are getting very much? Well, they are not getting——

148. Nor the patent agents either?

(Dr Smith) In the prosecution of the European patents, of course, as I said, this is a Zeneca estimate and Zeneca, of course, employs something like 40 European patent attorneys that do this particular work in house, so that cost is actually hidden from this calculation.

149. Oh, I see.

(Dr Smith) On the other hand when you look at the comparable costs, which I think we need to bear in mind, for Japan and the United States of America, then the attorney costs, as you rightly point out, are in there. However, if one looks at what is actually quite an expensive country in translation terms like Japan, you still have nothing like the same proportion of costs being expended in translation.

150. Now just hang on a second. In the various European ones all that you have included apart from translation is the European Patent Office fees, is it?

(Dr Smith) It is all the fees which are necessary to finish up with a patent in the countries that are actually designated.

151. And they would be patent office fees?

(Dr Smith) Yes.

152. Anything else?

(Dr Smith) Designation fees and the grant fees. It does not cover keeping them alive for their duration.

153. No, just getting to first base.

(Dr Smith) Yes, indeed, my Lord Chairman, exactly.

154. But everything else is in house so is not included?

(Dr Smith) For the European process.

155. Right, then, going to Japan, you are including a local patent agent to prosecute the patent on your behalf?

(Dr Smith) Yes, my Lord Chairman, and we have factored in that there will be at least two rounds with the patent office involving official communications which have to be handled, which is also going to add cost, and similarly in the United States of America.

156. Does that not make it a bit difficult for us to compare like with like? The disparity arises not so much on account of the different in translation fees—or perhaps it does to some extent—but also because of what?

(Dr Smith) Well, my Lord Chairman, they would have to be huge attorney fees that were being paid in Europe actually to result in this degree of discrepancy.

157. I suspect that that is right, but it does not actually leap off the page.

(Mr Sheard) May I contribute there, my Lord Chairman?

158. Yes, please do, Mr Sheard?

(Mr Sheard) As a practitioner earning my living by doing this kind of thing, largely in Europe, I think I know a little about what sort of costs are involved. It would be a surprisingly complex case if it came to £10,000 for attorney fees. I would say that probably £5,000 is a more usual figure, putting it comparably with the United States, where the figures there are almost entirely attorney fees because the official fees are very low in the United States. I would say therefore that although it does change the figures a bit translation is still the bulk of the charge.

Lord Hacking

159. My Lord Chairman, while I can understand the advantage for a European patent to have a single language and I can also see the advantage of the choice of the English language, not simply because I am an Englishman but because of the universal acceptance of the English language, and as an example you cited air traffic control—in fact, the whole of the aircraft industry makes it obligatory in the design and safety features of all aircraft to have that written in the English language—I am just wondering whether there is any position of compromise on a European patent to limit the number of European languages to the chosen one, or is that not a viable option?

(Mr Blakemore) My Lord Chairman, it would be a viable option if we could have the confidence that it would stop there. One of our problems is that if you subject this to a political debate inevitably a number of countries would say, "Why not me?", with considerable force and the logic there would be to protect the interests of the local nationals in regard to their language and, of course, the translators who depend on that for a living, but there is no logic in the sense that there would be in adopting English because English is the language of science and technology whereas Italian is not. It is therefore really in an attempt to resist that political argument that we are suggesting the English only solution.

Lord Goodhart

160. Would it not be perfectly logical to suggest that as the European Patent Office already operates in English, French and German the same three might be applied to the Community because one could say then that the Spanish, since they are already outside the system, would suffer nothing by not being included in the new system, and the French, who are no doubt the most likely to be the most resistant, would keep French as one of the official patent languages?

(Mr Blakemore) Well, yes, you are quite right, of course, we would suffer no more than we do at present, except, of course, that the present system does require us to translate once the case has been granted, so the English, French and German that we are talking about are the languages that are allowed to be used in the granting procedure. Once the grant has taken place, then today we face the prospect of translation into every country in respect of which we have designated. What we see here is an opportunity to change that. I

[Lord Goodhart *Contd*]

do not think that the European Patent Office would be under much difficulty in switching to English. Something approaching 60 per cent of all cases are handled in English today. All the European Patent Office staff are trilingual, so it was really in an effort to make the Community patents more attractive than the European patent system is today that we are suggesting the English only solution at the grant stage.

161. So if you want to include Spain in the bundle of countries to which your European patent applies, you then have to pay for translation into Spanish under the present system?

(Mr Blakemore) We do today, my Lord Chairman, yes, that is correct, and we would like to change that for a Community patent. That is the prize that we are seeking.

Chairman

162. Mr Nott?

(Mr Nott) My Lord Chairman, if I may also comment, we do seem to have an opportunity, there does seem to be considerable support in Europe, particularly perhaps with the French and Germans, as I was saying, to go to English as a single language, and it seems to me that we ought to try to seize that opportunity if we can, because as the Community expands so the argument of going for a single language or a limited number of languages is going to become more and more difficult to maintain.

163. We were told by another witness that if you take, for example, Lord Goodhart's example of translation into Spanish, in practice these translations serve very little purpose because even the Spaniards prefer to do it in English. How does one establish this, how do you find out whether it has served any purpose or not?

(Mr Blakemore) My Lord Chairman, there are a number of studies that have been done, in particular the Dutch patent office because for all the European patent applications which designate Holland the Dutch translations are filed at the Dutch patent office and they apparently have done studies, so I am informed, to see how many times these Dutch translations are consulted. Despite the thousands which are lying there I understand that the figures are in the order of 50 per year, which I think is a pretty low usage, and that is not at all surprising because if you want information about patents in a timely fashion you would not want to wait until the grant has taken place and the translations have been filed because you would want to look at the case at the application stage when it was first published. In practice therefore nearly everyone consults patent applications in English.

164. In the language of original publication?

(Mr Blakemore) Yes, that is right, my Lord Chairman, usually in English because there are firms such as Derwent that take abstracts of these and publish them all in English. It is the practice of most patent departments to purchase the Derwent publications and they are all searching them in English, so the translations are serving virtually no purpose.

(Mr Nott) Also, my Lord Chairman, there is a report that has been prepared by the Economic and Social Committee of the European Parliament which suggests from their own figures that only 1 to 3 per cent of the translations are actually consulted. It is not clear whether those are translations outside the three European Patent Office languages, but I assume that that is what they mean.

(Mr Sheard) My Lord Chairman, perhaps I may just pick up the point that Lord Goodhart made on the present position with the European Patent Office and the three languages. The European patent convention only requires the translation of claims. It is the national statutes that require the translation of whole specifications, so really the present position is not three full translations.

Lord Hacking] My Lord Chairman, may I thank the witnesses very much, and perhaps they would excuse me if I leave now, though it is nothing to do with the quality of their evidence.

Chairman] Yes, of course, Lord Hacking.

Lord Goodhart

165. My Lord Chairman, perhaps I may ask another question on translation costs, and this is simply as somebody who has never seen a patent specification. You list figures for a 30 page specification, an 80 page specification and a 150 page specification. What is the normal figure, what is the median figure for certification?

(Dr Smith) How long is a piece of string, my Lord Chairman. I think that it depends very much on the sort of technology that is being protected. Typically in a chemical or pharmaceutical invention there are a lot of embodiments of the invention, examples of possible ways in which the invention might work, which are included in the document. Many of these are very detailed technical descriptions, so as a result of that the pharmaceutical and chemical type of specifications tend to get fairly lengthy and, indeed, I think that that is the same in the area of biotechnology.

(Mr Sheard) Yes, it certainly is, my Lord Chairman.

(Dr Smith) In that area there are a lot of extra materials that need to be put in to substantiate that there is an invention. The 30 page specification I suppose is perhaps a very simple single chemical compound invention or perhaps an engineering invention, a machine, at that sort of level. Eighty pages is probably the norm for the main high technology industries, I would say, and that is why we have highlighted those in bold.

Chairman

166. Biotechnological patents seem to have pages and pages of strings of aminoacids which presumably are the same in any language?

(Mr Sheard) I rather hope that the translators do not charge us for those, my Lord Chairman.

Lord Wedderburn of Charlton

167. The evidence that it was suggested we might get from these reports and so on would be invaluable, but they would be most useful if they could show that there was sufficient belief in going to English language only from especially French industry or the like such that a French minister who proposed that this be so did not take his life in his hands.

(Dr Smith) Quite.

168. Just as a general matter—not the industries and so on, they might be convinced already—is this regarded as a possibility?

(Mr Nott) My Lord Chairman, if I may come in on that, certainly I know that in France specifically a great deal of the pressure towards a single English language has come from French industry, and I think that they have had a great deal of influence on persuading people there that the English solution is a good one. As a more practical workaday example, if you go to a meeting in Paris unless your French is very good you will find that the meeting is conducted in English throughout, and the same is true whether it is an Englishman there or probably even if it is a German and a Frenchman meeting also and similarly in other countries.

Baroness Elles

169. I was just wondering whether you could tell me why the translation costs for 80 pages for the European Patent Office are 76,800 and the total costs, 80,300, which is a comparatively minor difference, about 5 or 6 per cent, I think, whereas with the costs for Japan the difference in costs is enormous. Is the cost of translation for Japan very much less relatively towards the other costs that are involved in getting patent protection?

(Dr Smith) My Lord Chairman, I think that the answer to that is, indeed, that there is the cost of actually using the attorney firm to do the work to get the patent that is factored into that calculation which is not there in the European analysis.

170. I was wondering why there was such a difference.

(Dr Smith) That is the reason, my Lord Chairman. It is the cost of the attorney fee there. These figures are a snapshot of Zeneca's way of operating as opposed to anybody else's.

Chairman

171. It is simply because Zeneca can do it in house in Munich but cannot do it in house in Japan?

(Dr Smith) Yes, my Lord Chairman, that is right.

Lord Goodhart

172. May I just ask what is meant by the package solution as opposed to full translation?

(Dr Smith) My Lord Chairman, the package solution, if I may take this one, is a proposal which the European Patent Office and various other organisations have tried to adopt to address the whole issue of escalating translation charges with the existing European system and it requires there to be a translation into all of the languages of an enlarged abstract of what the invention is about and again, if I may refer to one of my colleagues for the exact detail, also the translation of the claims into the language of the country.

(Mr Blakemore) Yes.

(Dr Smith) Other than that, the text is one of the three official languages of the European Patent Office, that is to say, English, French or German.

Chairman

173. I should like to move on now, if we may, from translation. May I first just take up a small point with Mr Sheard. In the written evidence of the BioIndustry Association it says that whatever happens there ought to be an English translation of a biotechnology patent?

(Mr Sheard) Yes, my Lord Chairman—why the special pleading?

174. Yes, why just biotechnology?

(Mr Sheard) I suppose that pre-eminent among the emerging technologies biotechnology has the claim of being almost exclusively based in the English language. As we put in in the written evidence, my Lord Chairman, there are a number of reasons for that, one of which is that the United States has been a powerhouse for the origin of the technology. The United Kingdom's contribution should not be underestimated either. The language of the technology has emerged in English: just simply as a matter of fact, that is the way that it is. However, I think that there are probably a couple of other considerations too.

175. Is it a practical problem, is it conceivable that anybody could put in a biotechnology patent not in English?

(Mr Sheard) You do see them occasionally. They are remarkable—"Here is one not in English", it is worthy of comment, I believe, for example, the Institut Pasteur in France, where you see references to ADN rather than DNA. As we said in the written evidence, if a company that is a bioscience company is not operating in English as its first language—which I think would be unusual, because I think throughout Europe they predominantly would be—then we are sure that it would be their second language. It would be inconceivable that English was not number two if it was not number one. However, aside from being the fact of English pre-eminence, the high value products of biotechnology which are often health care mean that the bioscience industry, as I indicated earlier, tends to apply widely throughout Europe, so the translation costs do hit it. For the small companies that are involved they are large costs and the specifications tend to be lengthy.

176. Right, thank you very much on translations. May we just move on to the other main problem now, which is certainty of enforcement, and that comes down to the judicial system. Can you tell me what your favoured solution there is?

(Mr Blakemore) At the moment, my Lord Chairman, the favoured solution we advocate—that is,

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the Trade Marks Patents and Designs Federation—is to have a Community patent system. We would suggest that patent infringement is not brought within the purview of the national court system at all. The reasons for that I think have already been well rehearsed in relation to the experiences that patentees have suffered in certain jurisdictions already. Consequently, what we are looking for is a court system staffed by experienced judges well able to deal with the complex matters of a patent action and also provide uniformity of jurisprudence because it is only in a sense by bringing everything together at Community level that we think that it would be possible to develop rapidly a common jurisprudence to the benefit of all patentees throughout the Community and consequently that is the system that we would advocate.

177. If this is going to be a Community initiative coming from within the treaty the only way to achieve that is for your patent court to be technically a chamber of the court of first instance, otherwise you would need a new treaty?

(Mr Blakemore) I believe that that is right, my Lord Chairman, and I understand that since the European Community Council has already set up its community court of first instance under what I believe is Article 168a of the European Treaty there is already a power to allow it to try patent cases. That is the information that I have been given.

178. I am not certain how far the statute allows one to do this, but to be convenient to users presumably you would not wish for every infringement action to have to go to Luxembourg to be prosecuted before the court of first instance patent chamber?

(Mr Blakemore) That is correct, my Lord Chairman.

179. How would you manage? Would you deem the patent chamber to be sitting in London or Paris?

(Mr Blakemore) We would, indeed, yes, my Lord Chairman. If it were convenient to the parties we would suggest that it did sit in a country which was appropriate to the parties to the litigation. To the extent that it was necessary it could be made peripatetic.

180. And rights of appeal?

(Mr Blakemore) Rights of appeal we think should go back to the European Court system, my Lord Chairman.

181. To the European Court of Justice, in other words?

(Mr Blakemore) Yes, my Lord Chairman.

Baroness Elles

182. My Lord Chairman, I wonder whether I could just ask this. Under what article of the treaty are you assuming that the patent question would come if you wanted to bring matters before the European Community court in Luxembourg?

(Mr Blakemore) I am advised that it is under Article 168a of the treaty which set up the Community court of first instance, but there is provision already to bring certain classes of action, proceedings by natural or legal persons, and the European Council can determine the composition of that court, so the European Council would have the power to provide for this court to try patent actions at Community level.

183. So it would depend actually on the European Council taking these measures, would it not?

(Mr Blakemore) I believe that it does.

184. They would have to agree that this is acceptable according to the quantity of work that they have in the court?

(Mr Blakemore) That is as I understand it, yes.

Lord Wedderburn of Charlton

185. There is a relationship to language in this proposal, of course, because once you get into the Luxembourg judicial structure it is my belief that no one has dislodged French as the dominant language for judicial discussion outside the court, but that could be solved?

(Mr Blakemore) I am sure that it could be solved, yes.

Chairman

186. What would you say—and we are dealing here with a European initiative—as to whether there would be any advantages in having a convention rather than a regulation made under the treaty whereby you have more flexibility in the court structure?

(Mr Blakemore) My Lord Chairman, I think that the problem with a convention is that it is very difficult to get any ratification of a convention and as the Community expands and more countries come in it would be necessary to get those countries to ratify the same convention whereas the regulation would not suffer the same disadvantages, so we would favour a regulation for those reasons.

Lord Goodhart

187. I do not think that there would be a problem with the admission of new countries because it would be made a term of their admission that they would ratify the convention. However, there could be a problem with getting existing Member States to ratify?

(Mr Blakemore) Indeed, yes.

(Mr Nott) If I may come in here, my Lord Chairman, I think it is worth remembering that the Luxembourg convention for the Community patent has now been about for 24 years without getting anywhere. And the difficulty I know for the European convention is that it requires a full diplomatic conference in order to amend it, and there is considerable lack of flexibility, whereas if you had a regulation it would be much easier to amend it to take account of changing circumstances.

Chairman

188. In order to get the proposed court structure on its feet you would need unanimity under the article of the treaty to which Mr Blakemore referred?

[Chairman *Contd*]

(Mr Blakemore) Yes, indeed, my Lord Chairman.

189. Well, there is it. Has anybody else got any suggestions on the court structure?

(Mr Sheard) There is one point, my Lord Chairman, if I may. The feeling within the bioindustry was that it would be worth perhaps paying some attention to the body of case law that has been drawn up over the last 20 odd years in the European Patent Office and somehow—though we have no fixed idea how—integrating that into the overall structure.

190. Would it be necessary to make any formal provision for that? On the whole I think patent judges regard it as common sense to try as far as possible not to diverge from what other patent judges are doing in the same area?

(Mr Sheard) Yes, my Lord Chairman, I appreciate that. It is a question possibly of seizing the opportunity.

191. Yes.

(Mr Sheard) Here is a chance for revisiting the system and maybe for considering some of the ideas that have been floating around for reform of the European Patent Office in the way that it functions, the constitution of the enlarged board of appeal, for example, that Sir Robin Jacob has been floating as an idea. This would be an ideal time to consider how the two might integrate.

192. I take it that it goes without saying that nobody is in favour of the proposal in the Green Paper that there be a split between the jurisdictions to decide questions of infringement and jurisdiction to decide validity and the validity goes to the European Patent Office?

(Mr Blakemore) You are quite right, my Lord Chairman.

Chairman] I see you are unanimous.

Lord Goodhart

193. We have these two major problems that have been identified. Assuming that one of them could be solved and the other could not—and, of course, this could be either way—in either case would the Community patent be so unattractive that no one would use it or is there a possibility that the Community patent might be used even if one of the two objections was not met?

(Dr Smith) My Lord Chairman, may I speak to that. The issue of translation is actually less important than the issue of legal certainty. It is still important obviously, as I tried to demonstrate with this rough and ready analysis, but the key to using this system is getting a system which will provide legal certainty. If there is no legal certainty, the large companies certainly will not use it, and I would submit that the smaller companies will not use it either.

(Mr Sheard) I would echo that, my Lord Chairman. The situation where clinical trials of a pharmaceutical might be an infringement in one country and not in another is unsatisfactory.

(Mr Blakemore) Perhaps I may add one other comment, my Lord Chairman. While the present systems stay in place, which we hope that they would, as competitor to any Community patent system if the cost of translations remains so high, then from a purely economical point of view nobody would use it.

(Mr Nott) And certainly I think not small industry, my Lord Chairman. It would be very, very conscious of cost.

Chairman

194. It is contemplated that both the European Patent Office patents and the national patent would continue to exist side by side. Everybody seems to agree, I think, that the European Patent Office should deal with applications for the Community patent, they have all the expertise and so forth. Do you see any formal relationship between Community patents and European Patent Office patents? Should we be able to convert one into the other?

(Mr Blakemore) My Lord Chairman, yes, we do. Broadly speaking we think that it should be possible to convert from a European patent to a Community patent and vice versa certainly up to and including the grant stage and possibly even later if to convert would correct some invalidity in a Community patent.

195. Then I think that it was the CBI who said that there was a problem about renewal fees or that there was likely to be?

(Mr Nott) My Lord Chairman, I think that the question of renewal fees has been discussed earlier. They are very heavy. A large part of them is now taken by the national offices and some of it may go into general taxation and some of it may go back to the European Patent Office. We feel that the fees are very much higher than they need to be, not least because they go to a large number of patent offices. If there were to be a single Community patent run from a single European Patent Office, we would hope and expect that the fees would be able to reduced substantially, coming down to the sort of level that exists in America and Japan.

196. It was put to us by one witness that in principle it was right that the cost of patents should be, so to speak, back loaded because renewal fees were essentially a tax on a successful patent and that you ought to use that to cross-subsidise in order to encourage innovation the costs of applying for a patent. Do you see any sense in that?

(Mr Nott) I think that that would be accepted, my Lord Chairman, but I think that there are limits to the level of taxation that one can properly raise, if I may put it that way.

197. Mr Blakemore?

(Mr Blakemore) My Lord Chairman, as a matter of principle I think that we would expect that the renewal fees ought to go to paying for the running of the patent offices and that we should not be running large surpluses which go back into general taxation. I think that that is the key point.

198. Yes, I did hear that complaint too. Do you see the national patent system surviving all this with two other competitors in the field?

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(Mr Blakemore) My Lord Chairman, I think that in the very long term it may be that national patent offices would reduce very substantially and might ultimately disappear altogether. Such a scenario, though, would take place over a very long period. National patent offices today serve a very useful purpose in providing a service, particularly to small and medium enterprises and to local applicants who not only need to file patent applications but need access to patent information. Consequently, I think that it is desirable to encourage the continued existence of national patent offices, but, of course, they would have to be managed in competition with the other systems, as you suggest, my Lord Chairman.

199. Mr Sheard?

(Mr Sheard) My Lord Chairman, I think that the word competition raises another point. National patent offices provide a very useful quality control backdrop for a centralised patent granting authority like the European Patent Office because if there were mass dissatisfaction with the European Patent Office a very strong signal would be sent if the number of national patent applications shot up rather stronger, I fear, than simply making complaints about the system to the European Patent Office themselves.

200. Yes, so competition is a good discipline?

(Mr Sheard) Yes, my Lord Chairman.

Lord Wedderburn of Charlton

201. To which judicial care would these national patent offices be allocated? Would disputes in relation to their patents go to national courts?

(Mr Nott) If you go to the Community system then you would have a Community patent dealt with under the Community litigation procedure which Mr Blakemore mentioned. If you go to the European Patent Office under the European patent system or the national system you end up with national patents which are litigated in national courts and different national courts can come to different national decisions on the same patent on the same facts.

Chairman

202. As they do now. There is a reference in the evidence at least of the CBI to the possibility of looking to the future of further harmonisation of patent law, and I was not quite clear what you had in mind?

(Mr Nott) I think two points, my Lord Chairman. First of all, on the general principle we would approve the idea of anything done to harmonise the European system, if I may use that in the broadest sense. But there are also international things which could be done to harmonise things, for example, the major areas where there is patenting apart from Europe are the United States and Japan. You have to go through entirely independent searches and so on in proceedings in those jurisdictions. You get different arrangements for applications. For example, you have grace periods in the United States which you do not have in this country. You get rights for first to invent and first to reduce to practice, and harmonisation of things of that sort would also be helpful. That is probably a long way in the future.

203. That seems to be the general view, that it is a long way in the future.

(Mr Nott) One day perhaps, my Lord Chairman.

204. Thank you very much. Have we left out anything that you felt you ought to have told us? If not, we are very grateful to you for coming this morning. It has been most useful.

(Mr Nott) My Lord Chairman, may I add just one thing.

205. Yes, please.

(Mr Nott) There has been discussion of a utility model. I think I speak for all of us at this table in saying that we do not want a utility model, we do not want an unexamined right. Certainly that is the position of the CBI.

206. Yes, I think I had got that message.

(Mr Nott) I am sorry, my Lord Chairman, if I am repeating.

Chairman] Thank you very much.

Supplementary Memorandum by Zeneca

Estimated filing/translation costs for European patent protection (up to grant)—Zeneca

Filing route[1]	Translation costs/£ 30 pages	*80 pages*	150 pages	Total costs/£ 30 pages	*80 pages*	150 pages	Translation cost as percentage of total 30 pages	*80 pages*	150 pages
EPC—all 17 EPC states + all 6 extension states (16 translations)	32,000	*76,800*	144,000	41,500	*88,300*	157,500	77	*87*	91
Community patent full translation for 15 states (10 translations)[2]	20,000	*48,000*	90,000	28,200	*58,200*	102,200	71	*82*	88
Community patent full translation for 31 states (25 translations)[2]	50,000	*120,000*	225,000	58,200	*130,200*	237,200	86	92	95
Community Patent—Package Solution for 15 states (10 translations)[3]	3,000	*7,200*	13,800	11,200	*17,400*	26,000	27	*41*	53

Filing route[1]	Translation costs/£ 30 pages	*80 pages*	150 pages	Total costs/£ 30 pages	*80 pages*	150 pages	Translation cost as percentage of total 30 pages	*80 pages*	150 pages
Community Patent—Package Solution for 31 states (25 translations)[3]	7,500	*18,000*	34,500	15,700	*28,200*	46,700	48	*64*	74
Community Patent—English only (no translation)[2]	—	—	—	8,200	*10,200*	12,200	—	—	—
Community Patent—filed in non-English language (1 translation)[2]	2,000	*4,800*	9,000	10,200	*15,000*	21,200	20	*32*	42

[1] Total cost includes EPO official filing, designation/extension, search, examination, grant fees + translation costs plus estimated patent attorney fees of £6,000 for a 30 page specification, £8,000 for an 80 page specification and £10,000 for a 150 page specification. *[Note: Zeneca has in-house attorneys to do this work in the UK and Europe and absorbs this cost internally.]*

[2] Total cost as for EPC except that no designation/extension fees included.

[3] Package solution requires translation of claims and provision of an enhanced abstract in an official language of each Member State. Total cost as for EPC except that no designation fees included.

Comparative costs for obtaining Japanese and US patent protection

Filing route	Translation costs/£ 30 pages	*80 pages*	150 pages	Total costs/£ 30 pages	*80 pages*	150 pages	Translation cost as percentage of total 30 pages	*80 pages*	150 pages
Japan	2,300	*6,100*	11,400	6,500	*11,300*	18,000	35	*54*	63
US	—	—	—	4,000	*4,000*	4,000	—	—	—

ASSUMPTIONS

(1) *European/Community*

Average cost of translations in each Member State—£15 per 100 words.

Each specification has 40 lines per page and 10 words per line.

30 page specification—translation cost approximately £2,000 per country

80 page specification—translation cost approximately £4,800 per country

150 page specification—translation cost approximately £9,000 per country

EPO fees (December 1997), include filing (£89), search (£603), designation fee (£53), extension fee (£71), examination fee (£993), grant fee (£496).

Community patent package solution:

— if 30 page specification assume 1 page enhanced abstract, 4 pages claims cost per state £300;

— if 80 page specification assume 2 pages enhanced abstract, 10 pages claims cost per state £720;

— if 150 page specification assume 3 pages enhanced abstract, 20 pages claims cost per state £1,380.

EPC states:

Austria, Belgium, Switzerland, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Portugal, Sweden.

18 States, 17 separately designatable, 10 translations, no translations required in LU, MC.

6 extension states Albania, Lithuania, Latvia, Macedonia, Romania, Slovenia.

6 translations.

EU states:

At present:

Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom.

Total 15 States, 10 translations.

Year 2003

Additional states Czech Republic, Cyprus, Estonia, Hungary, Poland, Slovenia, Turkey, Malta.

Total 23 States, 17 translations.

Year 2010

Bulgaria, Belarus, Latvia, Lithuania, Moldova, Romania, Slovak Republic, Ukraine

Total 31 States, 25 translations.

(2) *Japan*

Cost of translation—£19 per 100 words

Total cost in table includes Japanese agent fees + official fees for filing, claiming priority, examination, typing, translation, response to 2 official actions, registration and excess claims.

(3) *US*

Total cost in table includes US agent fees + official fees for filing, assignment, information disclosure, response to 2 official actions, excess claims and issue.

5 March 1998

THURSDAY 19 MARCH 1998

Present:

Borrie, L.
Elles, B.
Hacking, L.
Hoffmann, L. (Chairman)
Nathan, L.
Plant of Highfield, L.
Wedderburn of Charlton, L.
Wigoder, L.

Memorandum by Judge Jan J Brinkhof, Court of Appeal at The Hague, the Netherlands

What would be the main advantages and disadvantages of patent protection covering the whole Community?

1. National patents could pose a substantial barrier to the free movement of goods within the EU. Such barriers are at odds with the concept of the internal market in the EU. The creation of Community patents covering the whole Community will contribute to the realization of the internal market (fair competition and the free movement of goods). It is indeed a contribution but not the solution. We have to be aware of the fact that it will still remain possible to secure national patents granted either by national patent offices or the European Patent Office.

2. The creation of Community patents alone is not sufficient to guarantee an even playing-field for patent-holders and their competitors. The enforcement of Community patents needs to meet uniform criteria everywhere in the Community. The Protocol on the Settlement of Litigation concerning the Infringement and Validity of Community Patents provides for the establishment of a Common Appeal Court. It is important that litigation will be brought at a Community level. This may contribute to a solution to an increasingly pressing problem concerning the enforcement of patent rights in Europe.

3. As to the actual situation, I consider the litigation to be one of the biggest problems.

3.1 In Europe, the substantive law has been harmonized as regards the most important issues (for instance, requirements for patentability, grounds for revocation and scope of protection). Furthermore, the European Patent Convention provides for a European centralized granting system. A single European application to the European Patent Office may result in a bundle of 18 national patents at most. Nevertheless, it may be necessary to commence legal proceedings in different countries for the same infringement of the same (European) patent. This is unacceptable. It means a waste of energy and resources. The risk that judges will reach contradictory decisions, however, is more damaging. Moreover, it is not attractive or legally expedient for national judges to duplicate the work of their foreign colleagues.

3.2 The actual situation (national patents granted by either the national patent offices or the European Patent Office and valid in national territories) no longer corresponds with the economic reality of today. The economic reality is that many enterprises do not operate exclusively in national markets but in the European market as a whole or in a substantial part thereof. A situation in which these enterprises are confronted with substantial national differences as regards patent rights and the enforcement of such rights is not workable.

3.3 I have the impression that great differences exist as to the quality, the speed and the costs of patent proceedings in the various countries. These differences may partly be explained by the differences in procedural law. The differences in procedural law cause legal uncertainty and inequality.

3.4 After the harmonization of the substantive patent law and the centralization of the grant of patents in Europe the time has come for patent litigation at the European level.

4. Theoretically, I do not see any disadvantages as regards patents covering the whole Community. In practice however, it may turn out that there are disadvantages. The costs of securing and enforcing Community patents could be such that only large enterprises are able to afford them.

Would the Community patent system as devised in the Luxembourg Convention be used if it were to come into effect (i.e., if all necessary ratification were made)?

Formulated in a slightly different way the question is whether the advantages of the Community patent system outweigh the disadvantages of the present patent system. A judge cannot readily answer this question. It is the users who should provide the answer.

What are the weaknesses of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)?

In my view the translation costs and the judicial arrangements are indeed the most important problems.

I have the impression that the Luxembourg Convention will not get off the ground unless the problem of translation costs is solved satisfactorily.

I am afraid that the judicial arrangements laid down in the above mentioned Protocol are not adequate. To my mind, they are the fruits of too many compromises and reflect a certain distrust *vis-a-vis* national courts. It seems as if one has become too resigned as regards the existence of different opinions and has tried too little to take brave decisions. It is difficult to forget that the arrangements are neither fish, flesh, nor a good red herring! The way in which the infringement procedure and the combined infringement and revocation procedure are devised, is complicated. It is a mixture of national and Community elements. It is somewhat peculiar that the (national) courts of second instance to which the judges with their extensive experience in the field of patent law belong, play no important part. They are merely a go-between between the (national) courts of first instance and the Community Appeal Court. A more important impediment will likely be the fact that the (national) courts of first and second instance apply their own national procedural law. They can only impose sanctions that exist in their own national law.

The national rules considerably influence the speed, the costs, the possibilities and the qualities of the proceedings. The Community Appeal Court cannot change this. This will all inevitably lead to the fact that the outcome of proceedings is dependent on the country where the proceedings take place.

Neither are the proposals laid down in the Green Paper convincing. It is not a good idea to split the issues of infringement and validity. These issues are interrelated and should be dealt with by one and the same court. Nor is it a good proposal to limit the territorial effect of decisions of national courts concerning the revocation of patients. The unitary character of the Community patent must be preserved.

Perhaps a better solution would be feasible. The starting points could be:

- — issues of infringement and validity are considered together;
- — decisions have a Community-wide effect;
- — the experience and expertise of national patent judges and judges of the Boards of Appeal of the European Patent Office are used;
- — a distinction is made between larger and lesser cases.

According to my experience proceedings differ as to the financial and economic significance, the financial capacities of the parties involved, the urgency, the fundamental interest, the complexity of the technical issues, and the territorial impact.

Of course logic requires that disputes concerning Community patents are judged by a Community patent court. Such a court could be staffed by experienced national judges and judges of the Boards of Appeal, including "technical" judges. It is to be expected that proceedings before such a court would be costly, very likely too costly for many small companies.

One could consider that *national* patent courts of first and second instance as provided for in the Protocol should decide the "lesser" disputes. It is likely that procedures before *national* courts would be cheaper.

The Community patent court could judge the "larger" disputes. Special procedural rules have to be devised for this court. This court has to develop the case law which has to serve as a guidance for the *national* patent courts. One could consider offering the *national* courts the possibility to refer preliminary questions to this court.

Is there a case for further action at Community level?

Yes. The present situation is not in conformity with the requirements of an internal market. With the expected enlargement of the EU the problems will only increase.

Should the Luxembourg Convention be turned into a legal instrument covered by the EC Treaty (i.e., a regulation made under Article 235)?

I am not a specialist in the field of European law. In any case I think that a Regulation is more practical than a Convention. When it came to the enlargement of the EU a Regulation would automatically form part of the *acquis communautaire* whereas a convention would have to be amended or negotiated.

What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable?

A Community patent system will enhance the already existing need and desire for more harmonization. Harmonization as regards compensation or damages, remedies and procedural law seems unavoidable.

What should be the relationship between the Community instrument and the European Patent Convention?

I am afraid I cannot give a suitable answer.

Allow me to make a final remark. I do not rule out that the Luxembourg Convention will not come into effect in the foreseeable future. A political solution to the language problem could be a stumbling block. If this were the case there is no impediment to improving the present situation within the framework of the European Patent Convention, especially as far as the litigation is concerned. At the moment the interested circles are prepared—so it seems—to accept radical measures.

December 1997

Memorandum by the Hon Messrs Justice Jacob and Justice Laddie

1. The existing arrangements for the litigation of patents and other intellectual property rights in Europe are unsatisfactory and are becoming increasingly so. The problems are:

(a) The need for parallel suits in a number of jurisdictions with the possibilities of different (and conflicting) results in different countries.

(b) The assertion of cross-border jurisdiction by the courts of some countries (notably Holland but also Germany and France to a much lesser extent). This problem is described in the judgments of Laddie J and the Court of Appeal in *Fort Dodge*, the judgments of Laddie J in *Coin Controls* Lloyd J in *Pearce*. Copies of these judgments are annexed.[1]

(c) The Brussels Convention was not drafted with sufficient regard to intellectual property (and probably other parallel rights, e.g., in defamation) in mind:

(i) It makes no sense to draw a distinction between registered rights (such as patents) and unregistered rights (such as copyright or design right);

(ii) Furthermore, in the case of IP rights plaintiffs are able to subvert the main provisions of the Convention. Article 2 provides the main rule—that the plaintiff must sue the defendant in his home state. But IP rights can be asserted against a seller—and in a common market it is nearly always possible to find a seller in a jurisdiction of the plaintiff's choosing. The plaintiff sues that seller and then joins in parties from elsewhere. So choice of jurisdiction is in practice given to the plaintiff.

(iii) Potential defendants are increasingly trying to forum shop themselves—by starting actions for declarations of non-infringement and revocation suits before a plaintiff starts Dutch proceedings. They use Article 21 to say that the court of their choice is first seised of the dispute.

2. The European Patent Office has become increasingly bureaucratic and slow. Moreover its dispute resolution procedure is increasingly the subject of criticism. It is to be hoped (and expected) that things will improve, but the position remains that it is essentially a patent office. We do not think it should be given the ultimate say over validity as is proposed in the Green Paper.

3. Industry will not use the Luxembourg Convention as it stands. The reasons are two-fold: inadequate judicial mechanisms and costs because of translation requirements.

4. As to translation problems, these involve cultural as well as practical problems. Even with the present system of the EPO the total cost of translations is estimated to be DM800m p.a.—with European industry paying DM480m of that. Patent costs are about ten times higher for Europe than for the USA. Many continental European companies are concluding that one should move to a single language—English. To those who say an individual has a basic right to know what the subject of a monopoly is in his own language, large industry at least is saying this is impractical. Moreover since validity depends upon the prior art and that art is likely to be in English (or some other foreign language) the position that a man can ascertain his rights simply reading material in his own language has long been sold. Even under the present system translations are only provided late in the day—yet if a patent is granted rights operate from the date of publication of the application just in the language of the original application (French, German or English).

5. We (particularly Jacob J) have entered discussions with a number of continental judges (and Mr Leardini, of the Commission and author of the Green paper) about a way forward. In particular Jacob J has had meetings with the president of the Federal Patent Court of Germany and Judge Brinkhof of the court of appeal of the Hague and both of us are in discussion with Judge Willems of the court of first instance at the Hague. In addition Jacob J has attended a meeting in Divonne of an association of the heads of patents departments of large European Companies. The following picture emerges:

[1] Not printed in this Report.

(a) Everyone wants the trial of validity and infringement together. Although the Germans (and one or two other countries) do it separately they do not do so for anything other than historical or political reasons. So the idea of a reference to the EPO when validity is attacked is a non-starter.

(b) Industry will not use a proposed European patent unless it has confidence in the judicial system which backs it up. The use of inexperienced judges, or procedures which are cumbersome and slow is unacceptable to the users. They want (as they can get now) a result within a year or so.

(c) The costs must be kept reasonably low. There remains a widespread perception that particularly UK costs are too high—partly because we still have discovery on too large a scale for some cases. In this connection the ability to modify procedures according to the size of the case is thought to be useful.

6. Jacob J has drafted a paper (with which Laddie J and Judge Willems have so far indicated agreement) which it is intended to go to the Commission. The draft (a copy of which is annexed) is currently in circulation amongst those named at the end of the paper. In the context of using existing national judges with experience is concerned it may be helpful to have a view of what the manpower available is. England and Wales have three specialist patent judges (a little more if one includes Chancery judges who are not specialist by experience but are assigned). Germany has a few more (excluding the Patent Court which is concerned solely with validity). Sweden a couple and Holland and France a few. We are not talking about a lot of judges who deal with infringement across Europe.

7. We believe that any solution must be radical. It may well include the formation of a European Patents Court dealing with infringement, validity and, probably, provisional relief. It is too complicated to cover ancillary matters such as damages, enforcement by injunction and so on.

3 November 1997

Examination of Witnesses

PROFESSOR JUDGE JAN BRINKHOF, THE HON SIR HUGH LADDIE, THE HON SIR ROBIN JACOB and THE HON SIR NICHOLAS PUMFREY, called in and were examined.

Chairman

207. Thank you for coming along this afternoon, gentlemen, to assist us and thank you for the written submissions which you have given us, which we have all read. We particularly welcome Professor Brinkhof for having come over from the Netherlands. The other three are all extremely well-known to me and I can introduce them to the other Members of the Committee: Mr Justice Pumfrey, Mr Justice Jacob and Mr Justice Laddie. Mr Justice Pumfrey and Mr Justice Laddie are at present judges who have been charged with the patent list in the High Court. Mr Justice Jacob used to be but has now given himself over to more general judicial duties. Is there anything you would like to say before we get down to more general informal discussion? I ask you also to bear in mind that a number of Members of the Committee are not lawyers and are certainly not patent lawyers——

(Sir Robin Jacob) Perhaps I should say something then.

208. —— so it is necessary not to be too technical about these matters.

(Sir Robin Jacob) The current position in Europe, as is increasingly becoming clear, is unsatisfactory to the point that it is hurting European industry. The original view that you just had national patents and they could be litigated, and could only be litigated, in the country concerned, and that the European Patent Office granted a bundle of national patents with the same rule applying once they were granted, is increasingly incompatible with any reasonable notion of a common market. The judicial arrangements in different countries mean that any patentee who wants to put goods on the market as a whole, is likely to find difficulties in one country or another. In the case of some classes of goods that means he does not put them on the market anyway. The Dutch courts decided that one way to overcome this would be to grant pan-European injunctions from Holland asserting supranational powers. I understand from Judge Brinkhof that they do that as a matter of Dutch law in part but he can explain it better. But in any event, the existing Treaty dealing with international litigation, the Brussels Convention, plainly was drafted without any, or any adequate, thought as to intellectual property rights. Its essential provisions are that you sue in the country where the defendant is or where the damage occurs. Those are the two basic options. What the drafters of the Convention forgot was that goods circulate all over a market and that under intellectual property law the seller can be an infringer. So it has become possible for patentees to turn the Convention on its head, find a country where they wish to sue, find a seller there, sue there and join in everybody else after. At present the litigation activities have essentially been confined to Northern Europe but one cannot expect it to stay stable under the current arrangements and so I suggest that this is not just an academic question, this is a question of increasing urgency for the whole of Europe.

209. Could you explain the significance of your last remark, that although at present it is confined to

[Chairman *Contd*]

Northern Europe—by which I assume you mean Britain, France, the Netherlands and Germany—you cannot expect it to stay stable, and what the consequences of instability might be?

(Sir Robin Jacob) Yes. There are a number of different possibilities. For example, one thing which has been described as the "Italian Torpedo" is that the potential defendant decides to start proceedings in Italy for a declaration of non-infringement—if that is possible under Italian law or Greek law—and he would look for a jurisdiction (Italy is suggested) which is particularly slow. He might be able to come closer than Italy. Belgium might be quite a good country these days. On one construction at least of the Brussels Convention nobody else is allowed to try the case thereafter until this is resolved, which by and large means until the patent has expired or everybody has lost interest in the product. So that is one real possibility at the moment, which is the Italian Torpedo. Likewise, in some cases to forestall the Italian Torpedo people are starting applications for revocation in national courts and you are having a game between patentees and potential infringers. It really very much depends on who is best advised, the patentee or the potential infringer. Essentially, the potential infringer has the initiative because he knows what he plans to do before the patentee knows he has done it. So the Italian Torpedo is his first option.

210. Perhaps following on from that I should ask Professor Brinkhof: the Dutch courts have started to operate as European patent courts by granting orders which are on the face of them effective throughout the Community. Could you describe to the Committee the practical economic need which has given rise to the Dutch courts assuming that jurisdiction?

(Professor Judge Brinkhof) As you all know, substantive patent law has been harmonised in Europe. The next step was centralisation of the grant of patents, the European Patent Convention, and, as Sir Robin said before, what you get is a bundle of national patents. Nowadays increasingly patentees are confronted with international infringements, by which I mean infringements of the national patents originating from the European grant. For instance, a company which has a patent for a pharmaceutical and is confronted in all countries in Europe with infringements of his rights. Of course, he could start proceedings in every country but that is time-consuming, it is costly, it is complicated and so on. So there is a need for a more or less centralised procedure in order to stop the infringement all over Europe. Some clever lawyers have invented that maybe the Brussels Convention can be used in order to get pan-European injunctions and they have started proceedings in Holland. They based this jurisdiction on Article 2 of the Brussels Convention, that is, the place of the domicile of the defendant, and they asked the judge not only to forbid, to prohibit, the infringement of the Dutch patent but also of the parallel German patent, United Kingdom patent and so on. According to the Dutch judges so far, they think they have the power and the jurisdiction to give such trans-border injunctions. That has also to do with a decision by our Supreme Court saying that there is no restriction on prohibiting unfair behaviour wherever it takes place, provided that the judge has jurisdiction. I do not think that is a point that raises very much difficulty but difficulties arise especially when a group of defendants is summoned before a Dutch court. The only binding factor is that the individual defendants infringe national patents in various countries.

211. Are people otherwise entirely unconnected?

(Professor Judge Brinkhof) No. Sometimes they are members of a concern, mothers and daughters as we call it in Dutch, subsidiaries. There are more links between the defendants. The Dutch Court of First Instance have said that is enough, that link between the defendants, so we can base our jurisdiction on Article 6 of the Brussels Convention and when we have jurisdiction we are able to prohibit all the defendants from infringing the national patents in the various countries of Europe. There is another problem and that is the problem of Article 16 and that has to do with the validity of patents. The validity of patents must be decided by the national courts, so a Dutch court cannot say that a United Kingdom patent is invalid. Does that hinder the Dutch court or not? That is the question at the moment. In what we call summary proceedings, *kort geding*, the Dutch courts consider whether there is a serious chance that the patent will be revoked. If that chance is not there they feel that they have the power to give preliminary decisions on infringement.

Chairman] I am sorry, we will just have to wait a moment and suspend things until the vote has taken place.

The Committee suspended from 4.49 pm to 4.56 pm for a division in the House

Chairman

212. I am sorry about that interruption. Professor Brinkhof?

(Professor Judge Brinkhof) It is very difficult to talk about the Brussels Convention and the meaning of the Articles.

213. I do not think we are so much concerned with the technical basis of the jurisdiction. What I am interested in particularly is, assuming that the Dutch courts are right in taking this jurisdiction then presumably any Community court would be able to do so and would be able to do so not only in proceedings for infringement but in proceedings for declarations of non-infringement subject to the problem of not being able to deal, other than summarily, with questions of validity. What would the effect be on the Community patent system if everyone did what you do?

(Professor Judge Brinkhof) We would have a solution to a real problem and the problem is the fragmented litigation and that problem would be solved.

Lord Borrie

214. But would not the answers be different according to which country the court was situated in?

(Professor Judge Brinkhof) Theoretically, no, because when we have to judge on infringement we

[Lord Borrie *Contd*]

have to apply the same provisions of the European Patent Convention. In practice there are still differences. There are famous examples. The *Epilady* case is a famous example of it. Of course, there is a big problem. There is no supra-national judge who can say which judge has done it well. That is a problem and that is the reason why we are here, I suppose, because the Green Paper suggests that we try to find a judicial arrangement for this problem.

Chairman

215. Perhaps we could move to that now. I would like to discuss what is the preferred solution for a judicial arrangement. The original one, as I understand it, was that the national court of any Member State should be able to deal with validity and infringement and that the revocation of a patent by the judge of one Member State would operate throughout the Community. I understand that was the 1975 proposal. The Green Paper suggests that validity be dealt with separately from infringement and the favoured body for dealing with validity is the European Patent Office. Where do you go from there?

(Professor Judge Brinkhof) We have a common view.

(Sir Hugh Laddie) First of all, let me take the question of whether infringement and validity should be tried separately. I think there is nobody who has experience and expertise in the patent field who thinks that is a good idea. Whether you like it or not, questions of validity and, in particular, questions of prior art on patents affects the scope of the patent and therefore issues of validity and infringement almost always become intertwined. The idea of separating them out mandatorily does not appeal, as far as I am aware, to the overwhelming majority of practitioners. So it should be possible for them both to be tried together. Then, if that is so, there is no doubt what would be the perfect system. You can make up a wish list. A wish list consists of an experienced Court of First Instance with appeals going to a competent appellate court.

216. And each having Community-wide jurisdiction.

(Sir Hugh Laddie) And each having Community-wide jurisdiction. The problem, it appears to me, is that the obvious way of achieving that would be to have, for example, a Community-wide Court of First Instance manned perhaps on a temporary basis by a panel of judges from the various national systems who have expertise in patent matters leading to a European Court of Appeal in patent matters. The problems besides matters of political will are questions of cost and logistics. Let me explain quickly why I think that is a problem that has to be faced up to. If there were to be a Court of First Instance with pan-European responsibility manned by judges from the Member States one could expect litigation to be quite expensive. Either the court would have to be peripatetic or litigants would have to go to the court if it was sedentary. Either of those will, of course, involve significant costs. If you are talking about a court having jurisdiction over all patent disputes for the whole of the Union you are talking about a fairly large workload and it would mean having one or more courts available in there as sedentary or peripatetic and the cost burden on the party would be significant. If that happened my worry is that it would mean that proceedings before such a Court of First Instance would tend to be slow, it would take time to get them on just because of the mechanics of getting your lawyers in the right place at the same time as the judges and so on and so forth. What would then have to be faced is, how do you deal with emergency applications for injunctive relief, because if you have to wait two years for your trial you can be pretty certain that in many cases the patentee will want to get in fast to get some sort of emergency relief and an obvious thing to do is to go back to the national courts to ask for your emergency relief. That would then undermine the whole point of having a pan-European court of first instance. That drives you, I think, towards this logic, which is that the pan-European court of first instance would have to be available enough and cheap enough to be a suitable court before whom emergency applications had to be made and I just see organisational problems in achieving that, and you have to go all the way back so that all emergency applications have to be made by that court, otherwise you end up with a *kort geding* sort of procedure in all national courts and you end up with precisely what we do not want, which is lawyers vying to keep the litigation in their courts because it is good for business, which seems to be happening at the moment. So I must say I have no doubt that the best system would be court of first instance and court of appeal, both on a pan-European basis. I have real problems with whether the first is possible, and if you do not have the first that then creates immense problems for just a European court of appeal because you would have national courts of first instance, so you would still have the same sorts of problems as I see we have at the moment, having, importantly, very different procedures, very different ways of assessing evidence, in many respects different forms of relief about what damages you should give and so on and so forth, all funnelling into a single court of appeal, and I can see that causing problems. It seems to me that if you have a single court of appeal you must then work back from that so that the procedures in the courts feeding into it are more or less consistent. So one way or another if you want to solve this you are going to have to try and impose a regime of consistency on the courts of first instance. Finally, I would say this. The real problem with having national courts of first instance, it seems to me, is the one that Sir Robin pointed out, which is the sort of Italian Torpedo type of case. The real problem is that it is very easy to be overwhelmed in a patent dispute if you do not understand what patents are. In particular, the bee in my bonnet is that if you do not know enough about patents you could work on the assumption that they are all valid because they have a stamp on them, and I am afraid to say that patent offices end up by giving patents out in many cases, not all cases, when the patent is invalid and if you end up litigating in front of a court with no

expertise, you will end up having unjustified monopolies and unjustified monopolies mean that you close down parts of European industry for no good reason.

Lord Borrie

217. I enjoyed listening to that tremendously and as an idealist myself I can see tremendous advantages in what you have said. I am tempted to ask this: reading the memorandum by yourself and Sir Robin Jacob, there was a very firm statement against the European Patent Office having a significant role, for, I am sure, very good reasons, but supposing instead of an elaborate and, to be effective, expensive and available at all times for injunctive relief and so on, pan-European court of first instance, you had something in between the European Patent Office and that—may I call it, for simplicity's purposes, a judicialised European Patent Office—which might be temporarily or for periods of time staffed by officials and judges attached to it for periods of time from this country and that country and the other country, so that you had the ideal but in a perhaps less expensive form. Alternatively—and I only thought of this after listening to Judge Brinkhof—why cannot the countries agree that some country, and it naturally occurred to me that it might be the Netherlands, should be allotted the more or less semi-permanent task of providing the court of first instance from its competence, from its expertise, from which appeals would then go to the court of appeal?

(Sir Hugh Laddie) I can say straightaway that the last suggestion I would welcome with open arms and I would go off fishing. Actually, Lord Borrie, I do not see that that suggestion is any different from what I am putting forward. Whether you call it part of the Patent Office, whether you call it a court, does not matter. The problems of first instance are the problems of making sure that it is competent enough and readily available enough and, importantly, cheap enough, because one of the real downsides of the patent system is that if it can only be used by big industry what will happen is that it will be used by big industry and it will make everybody's life hell. So having just a body attached to the European Patent Office, it does not matter whether you call it a court, it does not matter what the manning is, you still are faced with exactly the same problem: is it going to be available just in one location? If so, do people have to go there, including for interlocutory applications, or is it peripatetic? It is all the same argument. It is a matter of nomenclature, it seems to me, rather than substantive difference. The problem I have with the European Patent Office, I am afraid, is that it does have a very different attitude to us in questions of evidence. It is a tribunal which has a more relaxed attitude to evidence than we do. Perhaps I could tell you a little story. Before I went on the bench I was asked to go out to the European Patent Office to hear the proceedings on a case where I was instructed in England for patent infringement proceedings. The client sent me out there to see how the equivalent European Patent Office proceedings were run. It was actually an eye opener. The advocates on each side produced from their pockets letters from professors. The one for the patentee said, "I have got a letter here from Professor so and so who says it is very easy to do this", to which the lawyer on the other side got up and said, "I have got a letter from so and so who says it would take six months and is very difficult." When that finished the technical board of appeal said, "Now we have got all the evidence we will go off and decide." I think they needed a fair amount of education.

Lord Plant of Highfield

218. I am one of the non-lawyers so it is going to be a naive question. How much of a challenge will this actually be to get the degree of harmonisation of proceedings and remedies that would be required to have Courts of First Instance feeding into one Appeal Court?

(Sir Robin Jacob) It is a colossal challenge, but I do not think it is impossible and I think it will be do-able if it is thought absolutely necessary. I suspect that it is absolutely necessary.

(Sir Nicholas Pumfrey) I am not so confident that that is the case. There are real cultural problems with assimilating in some respects very different sets of legal procedures to each other. We know on an ordinary basis that there are some things which are done in other courts which we find peculiar, but there are also underlying principles of action which in certain circumstances all members of the Union would find undesirable to turn up in their own legal system, particularly in a self-contained part of that legal system which is what it would have to be. Patent actions often do not stand on their own. They will often be found mixed with copyright infringement actions, actions for registered design, unregistered design, possibly even in this country actions for infringement of utility models and misuse of confidential information. They all come together. If you are looking to have one set of procedures for patent litigation you will end up requiring one set of procedures across the whole field of what is loosely called intellectual property. I suspect that although this is properly a political question, my own view is given the difficulty with the implementation of the 1975 version of the Convention this would be many times more difficult.

(Sir Hugh Laddie) I have a different view. I know that we are all "old dogs" and it may take some time to teach us new tricks. I have no doubt at all that there are many well qualified lawyers and judges already in the Union who would be able to learn a new procedure if that was what was required. Furthermore, I have no doubt that with proper consultation a system which brought together most of the good points from the existing systems could be arrived at. I agree with Sir Nicholas that there is a problem with mixed actions, but in the end it may be that you will have to have a dedicated channel for patent cases and if they are mixed with other courses of action maybe spread them off. It seems to me that is a refinement, but I have no doubt that we could work a new system if a new system was necessary.

Chairman

219. I wanted to ask Judge Brinkhof for his view because it would be interesting to have the view of somebody who does not operate the English system.

(Professor Judge Brinkhof) It will be difficult, of course, but we have seen that the judges within the Court of Justice in Luxembourg can work together according to the same procedural rules. The Benelux Court of Justice is another example of a court in which judges from Holland, Belgium and Luxembourg work together. Judges understand each other very well and when they are forced to work together they will find solutions. That is their profession, to find solutions for problems.

(Sir Nicholas Pumfrey) I have no doubt that is correct as far as the judges are concerned. My difficulty is I am greatly doubtful about whether their political will to promote and carry through such a fusion would be found.

Lord Wigoder

220. You talk about Courts of First Instance and the need to cope with emergency applications and so forth. Could you help somebody who is very very ignorant of these matters. Very approximately how many Courts of First Instance sitting continually would you need to cope with what is the proposed volume of work?

(Sir Robin Jacob) I have thought about that quite a lot and I started by working out how many judges actually in Europe do patents right now under the complicated systems that we have got. The answer is not as many as you might think. You have got the entire English Patent Court here. In France there are not very many judges who do patents. In Germany, which is the principal country where validity and infringement are split for historical and not sensible reasons (as many Germans now say) those who deal with infringement are mainly situated in Dusseldorf and Munich. There are really about three in each place with some appeals. The Germans have their separate validity court. There are quite a lot of judges there, many of whom are technical because the German courts operate by technical input from the court itself in the Federal patent court. You have a few very good ones in Sweden. How many judges do you have in the Dutch courts?

(Professor Judge Brinkhof) About six or seven.

(Sir Robin Jacob) We are not talking about more than a double-decker load altogether, maybe two. That is one of the reasons why I think it may be do-able.

(Sir Hugh Laddie) I am sure that Sir Robin is right that it is do-able and it is true there are not that many. However, there is a very interesting point which is if you look at the throughput of the English Patent Court and compare it with the courts in the Netherlands and in Germany there is a relationship in the number of cases we deal with to the cost of the litigation and the reality is that the English proceedings are still, notwithstanding all that we try to do, very expensive. We get through 20 or 30 cases a year. I do not know what happens in the Netherlands, but I can tell you that in Germany they get through hundreds a year. What would you need in the way of judges? To some extent it depends on how likely they are to give plaintiffs what they want and how cheap the proceedings are and how quick they are. You can be pretty certain that if they are cheap and quick and they give plaintiffs what they want you will get a dramatic rise in demand.

Lord Wedderburn of Charlton

221. My mind is going back to the thread of argument that Mr Justice Laddie put before us a little time ago but it also relates to what he has just said. As I listened to that it occurred to me that a particular problem arose when he mentioned interlocutory injunction. I appreciate that one cannot from other periods of law remove interlocutory infringement altogether. First of all, is that a problem in the other courts and, secondly, is there anything he thinks we could do about it?

(Sir Hugh Laddie) No. I want to make it quite clear that when I talk about interlocutory applications there is a reason for that, because if there is an availability of an interlocutory application before what it might be thought or hoped was a friendly domestic court, lawyers will invent reasons for making applications to that court and that is what happens; it is not so much the injunction. But secondly, we domestically have a significant problem with interlocutories in that, for various reasons that I do not need to go into, interlocutories now are determined apparently on a basis which has no relationship to the strength of the party's case. We have tried to get round that actually in the patents court. There are very few real bona fide applications for interlocutory injunctions in the high court and there is a good reason for that, which is that anybody who comes along and asks for an interlocutory application before a patent court will have a timetable set and will be in court for a trial within months. So in fact the interlocutory injunction part has secured itself to an extent in this country, but that is not the point. Interlocutory applications will still be made if there is the availability of going to your friendly local judge.

(Sir Robin Jacob) For myself I do think one thing that ought to be taken into account is changing technology. I believe that it will be possible to operate this court sometimes without its ever convening except electronically.

Lord Hacking

222. It is not new in European jurisprudence to have a court with a single procedure because that is exactly how the Luxembourg court operates. My Lord Chairman, I understand the difficulties of the national courts and the different ways that patents are assessed in different national courts, but if the agreed or preferred solution is that there should be a starting-point of a pan-European court of patent appeal, that in itself would have to have, would it not, the same procedures? It would also have to receive the patent cases on the same evidential basis, because if it did not, it would not be able to operate. So if that is right, what is the difficulty then of working down from

[Lord Hacking *Contd*]

the pan-European appeal court into the national courts so that they also have similar, if not the same, procedures and a similar evidential basis?

(Sir Hugh Laddie) I have no problem with that. What I am saying is that if you have a pan-European court of appeal, that would be a necessary consequence of it, but it means that you have to agree that there shall be standard procedures, standard rules of evidence and so on throughout all the Member States in their national courts, at least in relation to patent cases. Of course, if you leave it just like that, with national courts dealing with first instance cases, you still have the problem of the Italian Torpedo. You will still have people who will choose a tribunal, maybe not primarily because it will get to the right answer quickly but maybe because it gets to the wrong answer slowly, and that is a problem. But you are quite right, of course. If you have a pan-European court of appeal, eventually you will have to have cases fed to it which have more or less the same sorts of rules and procedures in them.

Chairman

223. Could I ask, if you were faced with a choice of either having national courts doing the patent actions for the Community as a whole, with a right of appeal to the pan-European court of appeal, would you rather have the present system or would that be acceptable as second-best?

(Sir Robin Jacob) It is very difficult to predict the answer to that. I suspect you might be better off with the present system. I am not sure it would really work. I was going to draw an analogy with what happened with the Americans. They had nine federal circuits all operating under the same rules and procedure, with appeals from the judge of first instance to the federal court of appeal of that circuit, with only very limited appeals to the Supreme Court. They found that even operating under nominally uniform rules people were forum-shopping all over the place with exactly the same sort of thing: applications for declaratory judgments and so on in an anti-patentee federal circuit. So they found it necessary to create a special court of appeal, but that, of course, operates on the basis of evidence taken by whichever federal court has taken the court of first instance under the rules which they all understand and know. To work a court of appeal where the system for taking evidence in the courts below varies so widely—some countries do not have systems for taking evidence as we know it at all—would be very difficult. Take validity, for example, in some places but not others the court supplies the expertise and decides whether the patent is valid or not. That is basically why the European Patent Office ignores outside evidence. So that sort of halfway house I think is not worth going for myself.

(Sir Nicholas Pumfrey) I agree.

(Professor Judge Brinkhof) So you prefer the actual situation?

(Sir Robin Jacob) Compared with just a federal court of appeal.

(Sir Hugh Laddie) I thought the question was, would you prefer the current system to a court of first instance set-up.

224. No, the question was, would you prefer the current system to giving pan-European jurisdiction to the national courts with a right of appeal to a federal court of appeal?

(Professor Judge Brinkhof) Do you mean the actual situation under the Munich European Convention? Do you mean that or do you mean Community patents?

225. No, I mean a Community patent dealt with nationally at first instance but with a common court of appeal.

(Professor Judge Brinkhof) Yes, and the national courts having the jurisdiction for the whole Community?

226. For the whole Community." [*(Professor Judge Brinkhof)* Yes.]

(Sir Robin Jacob) I do not believe industry would even accept it or even be interested in it.

227. Because they would regard it as too insecure?

(Sir Robin Jacob) Yes.

(Sir Nicholas Pumfrey) The confidence of industry is crucial in this particular issue and if there is a possibility that there is an unreliable jurisdiction with the ability to destroy the patent right for the entire Union, it cannot be acceptable.

(Sir Robin Jacob) Even with an appeal.

Chairman] I thought that was your position.

Lord Hacking

228. My Lord Chairman, if I understood the evidence correctly, the choice is between carrying on, unsatisfactory though it is, in our present way or creating a unitary system both at the appellate level and at national court level?

(Sir Hugh Laddie) Which is undoubtedly the best choice, yes.

(Sir Robin Jacob) But I think in my discussions—and I probably have more discussions except for Jan Brinkhof with other judges—we have all been driven to that conclusion. There is quite a drive amongst some of the judges to say, "All right, we had better start drafting the rules and procedure of this system."

229. May I ask, if you were to have your favoured solution, how could we integrate it into the court structure of the European Union, because there is not a lot of room for manoeuvre without having another European Treaty?

(Sir Nicholas Pumfrey) As I understand it, if you were to step outside the competence of the current CFI, a further Treaty would be necessary. That seems to me to be inevitable and the preferred route. It is the preferred route to have another Treaty to establish a complete jurisdiction, because if that has to be done, if I can put it this way, it has to be done properly. The other thing that can then properly be considered is the question of financing, because if this becomes a large undertaking only enterprise, the patent route as a whole will not be doing its entire job. The position of SMEs in this particular area must not be ignored, and if there are to be Community-wide patents affecting the economic activities of SMEs, it is essential that

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SMEs can afford to litigate in the appropriate courts, because if you do not do that then the system as a whole becomes, to use a loose term, a means of oppression.

(Professor Judge Brinkhof) Yes, I agree with that.

Chairman

230. So you would not favour what has been suggested, a somewhat patchwork solution of adapting a special chamber of the court of first instance to be a patent court?

(Sir Nicholas Pumfrey) I think it is, as you rightly describe it, a patchwork. The CFI is not big enough. It would greatly have to increase in size. It is not an enormous court now. It is a very satisfactory court, I understand, within its own competence but it would be giving it a whole——

231. Not everyone would agree with that.

(Sir Nicholas Pumfrey) That is why I said I understand. It is not my task to be gratuitously abusive, but a proper court is better than an attempt to "make do and mend" with the present CFI.

(Sir Hugh Laddie) Once again I think it is simply a matter of terminology. If you could get a separate chamber of the CFI to do what we want it to do, then I do not care whether it is called the CFI or not. It is a matter of what tune it is playing to.

232. That is a robust pragmatic approach.

(Sir Robin Jacob) I think there are difficulties. This actually is a question of European Union law outside the general question of patent law. Is it within the competence of the Union to set up separate courts? I suspect there are difficulties. There is another difficulty with the CFI. One has to bear in mind that one does really need a system of first instance and quite a number of appeals. If you use the CFI for instance you certainly could not use the full Court of Justice as the appropriate appeal tribunal. They would not want it.

Lord Wedderburn of Charlton

233. And they would take a very long time to decide they did not want it?

(Sir Robin Jacob) Yes.

Chairman

234. Speaking of appeals, would it be satisfactory in the structure you envisage to have a single appeal? At the moment we have two here.

(Sir Robin Jacob) Yes, very.

(Sir Hugh Laddie) Depending on how the court of appeal works, sometimes no appeal at all.

(Sir Robin Jacob) There is actually provision for appeals. It is not quite clear how far that applies but there is, under Article 32 of the TRIPs, the international treaty, a specific requirement to the effect that there must be an appeal available in the case of revocation. Quite what that means, whether as of right or whether only with leave, is uncertain, as a matter of international law.

Chairman] Is there anything else that you want to add on the judicial structure point? No.

Lord Plant of Highfield

235. Could I just return to something for a moment because again I am not sure whether I am confused or not seeing something obvious. It seems clear that one could have different judicial structures built on top of a common European patent, that the common patent does not actually absolutely require—and there are best and least good solutions—one judicial framework standing around it. One of the difficulties in having the harmonisation is, as you say, the different judicial cultures and so forth in different countries. How far would the very fact of having a European patent, the validity of which would go through the revamped European Patent Office and so forth, not of itself require a good deal of harmonisation over ideas about what counts as evidence for a patent and so forth? How far is the diversity in judicial interpretation of patents and their defence or illegitimacy or whatever not going to be constrained anyway by the very fact that there would be a European patent?

(Sir Hugh Laddie) At the moment we have a European patent system with a single granting body. The validity of patents granted through the European Patent Office can be challenged in national courts, but the grounds are all the same, the interpretation is supposed to be the same and therefore you would have thought we should, if we have got the same ingredients and the same cooking instructions, all end up with the same omelette, but we do not.

Lord Hacking

236. The eggs are different!

(Professor Judge Brinkhof) But not in all cases.

(Sir Robin Jacob) There are different cooks!

Chairman

237. Can I ask you one or two other points which you may say are outside your expertise. Of course, a lot of the industry witnesses have devoted their attention to the expense of the translations which would be required for a Community patent and there are a number of different solutions, the most radical of which is that everything be done in English. Do you have any comments on that?

(Professor Judge Brinkhof) The language problem is extremely sensitive in Europe. Language is not only a cultural matter but also a political and an economic matter. I remember once during an international seminar in Munich I proposed to reduce the languages within the European Patent Office to one language and I did not propose the Dutch language but I proposed the language of technology, of business, of trade and my colleagues regarded that proposal as a personal insult. I was in a provocative mood, I have to admit. It is very very sensitive. In my view it will be an insurmountable stumbling block.

[Chairman *Contd*]

238. We were told, and they said we were going to be provided with chapter and verse, that at some conference of the industry side interested in patents German and French industry were in favour of adopting English. There was silence from their respective governmental organisations but not opposition.

(Sir Robin Jacob) That is the position I have found. I went to a conference in Brussels and people were asking if the French would give up French. A very sensible French patent lawyer got up and he said, "Do you think in France we do not do business outside France? Do you think we do not read patents in English? Do you think we can get away without using English?" Everybody in that conference, but then they were professionals, said that we have to use English. You raise an extra question which is, is it not a basic right that this goes to human rights levels. For myself, although that is a very emotional point, I think the pass was sold a very long time ago when it was decided that the validity of a patent, whether it is new or not, could be judged on prior art written in any language.

Lord Borrie

239. It was most interesting to hear Judge Brinkhof's and Sir Robin's comments about what attitudes are taken to the English language. My Lord Chairman raised a distinction perhaps between businesses on the Continent and the officials of governments. Would your answer be any different if we were talking about not reducing the languages to one but reducing them to either five or three?

(Professor Judge Brinkhof) As you know, within the European Patent Office there are three languages and I think that would be a good solution, but we have to realise that it is not industry that decides but the Parliaments. I think Parliament will say every citizen has the right to know what he can do and not do and he has to base his conduct on texts in his own language. A further problem is what should be translated? Something must be translated, but what must be translated, the application, the file history, the claims and the description? In that field something can be achieved. There are some proposals in the Green Paper for reducing the costs of translations. Something must be translated. I am sure no Parliament will agree with binding texts in a foreign language.

Lord Hacking

240. My Lord Chairman, is there a direct connection between the single language issue and the proposal for a unitary patent system? Which would work better, to have multiple languages or a single language when we move forward, if we do move forward, to a unitary patent system?

(Professor Judge Brinkhof) A single language, of course. It is the ideal situation. We no longer have Latin but nowadays English is the *lingua franca*.

(Sir Robin Jacob) Can I just give you some numbers? The chief patent agent of AKZO, who is a very strong proponent of a single language, says that currently something like DM 800 million a year is spent on translating European patents into languages where they are granted and so on. I do not know where he got his research from but it was rather solid. Of that 800 million, 480 is spent by European industry. The general accepted figure for the amount of these translations that actually get read by anybody is less than three per cent.

241. It is not just a cost problem, it is an efficacy problem.

(Professor Judge Brinkhof) Yes.

(Sir Hugh Laddie) If you say who suffers most, it is not actually AKZO, it will be all the smaller companies or individuals who want to get a community patent because for AKZO it is an inconvenience. I suspect at the end of the day it is an inconvenience that they will not worry about if it means that all those small companies cannot have any patents at all and that is what you are talking about.

Chairman

242. Thank you very much. You were given notice of one or two other rather technical points. You may feel that you wish to say something about them or you may feel that there is nothing you have got to add.

(Sir Robin Jacob) You asked about the prior use rights. I was very surprised to see that being raised as an issue. So far as this country is concerned the defence of prior use has never worked. If I am right in a decision I gave, I think currently under appeal, it is very limited scope. I am only agreeing with him!

243. I think the complaint was that prior use differed. Perhaps it does work in some other countries. You then cannot export the stuff you have made under prior use to another country and that was contrary to the spirit of the single market. That is the way it was put to us.

(Sir Robin Jacob) In principle, yes, but only in principle.

244. You do not think it is a practical problem?

(Sir Robin Jacob) No. What I do think is more important is the amendment of patents, which you did not raise. Once a patent has been granted each country has a different system, or in some countries no system, for amendment of the European patent, GB or UK or Germany and so on. That is deeply unsatisfactory. Although it starts off with common scope across Europe it may not end up that way. Amendment of patents is really quite a common procedure.

245. So they develop along different lines?

(Sir Robin Jacob) Yes. In England, for example, you can amend the patent in the course of litigation or you can amend it in the Patent Office. In some countries you are allowed to proceed on bits of the patent. I think that is the position in Holland.

(Professor Judge Brinkhof) Partial nullity, partial invalidity, is possible.

(Sir Robin Jacob) Some countries do not have that at all, I do not know what they do about it.

(Sir Hugh Laddie) I had a recent case where the patentee was applying to amend his patent in the European Patent Office because it was under

[Chairman *Contd*]

opposition there, but he was suing at the same time in England and he was suing in England on the unamended claim but trying to get rather different claims in the European Patent Office, and the defendants thought that was not playing ball and came along and asked for an order that they should apply to amend in the United Kingdom. I thought I had twisted their arms into doing that and they ended up coming back with both the amended and the unamended claims.

(Sir Robin Jacob) You raised also the question of utility models, not really within your current remit, but I think all the English judges and I think Jan Brinkhof, with whom I have discussed it, expressed alarm at the whole of the utility model proposal.

246. I have not yet met anyone who does not in this country.

(Sir Nicholas Pumfrey) It is very unsatisfactory.

247. Certainly the representatives of industry whom we had said that the notion of an unexamined right of that kind was horrifying.

(Sir Robin Jacob) Yes, and it will not help smaller chaps, which is what the theory is. The big chaps will have armies of people taking them out. It will close the little chaps down.

(Sir Hugh Laddie) For what it is worth, I should point out that I can see the current patent system being used for exactly this purpose. I remember not too many years ago I had a case in relation to one particular type of device where one company had secured a major dominant position in the market and it patented everything. It was a piece of electronic equipment which is used in supermarket checkout stations and they patented absolutely everything. They had dozens of patents and of the two that I was faced with, one of them was for including an electrical switch on the handle and they kept that hanging over my client's head for nearly three years. They had frightened off a lot of other people, not just on that one but on lots of other ones as well. At least there is some form of checking for patents. If you had no checking, the sky is the limit.

(Sir Nicholas Pumfrey) Particularly if the suggestion is, as it is in the Directive, that the criteria for validity should be in some way not very well defined, lower than the patent requirements unexamined.

248. That is the proposal.

(Sir Nicholas Pumfrey) And the lower threshold for a monopoly even for six years is inviting essentially oppressive behaviour. You asked about the doctrine of the exhaustion of rights and partial coverage. As I understand it, this is a question about partial coverage, non-application?

249. I think so, yes. The suggestion was that non-application amounted to consent.

(Sir Nicholas Pumfrey) There is a respectable run of academic opinion that this could conceivably amount to exhaustion of rights. One's feeling is that if the question is ever referred to the ECJ, it will receive a dusty answer.

250. I did not believe it as a proposition at first but I am told it is in circulation.

(Sir Nicholas Pumfrey) It is in circulation.

(Sir Robin Jacob) Yes, but you have to be told it.

(Sir Nicholas Pumfrey) And you have to be told it, but I think the proper answer is that everybody's instinctive reaction is the correct one.

Chairman] Thank you very much. It was very kind of you to have come and most helpful.

WEDNESDAY 1 APRIL 1998

Present:

Borrie, L.	Nathan, L.
Elles, B.	Plant of Highfield, L.
Goodhart, L.	Wedderburn of Charlton, L.
Hoffmann, L. (Chairman)	Wigoder, L.

Explanatory Memorandum (9675/97 COM (97) 314 Final) submitted by the Department of Trade and Industry

SUBJECT MATTER

1. In response to a call made by the European Council at the Florence Summit in June 1996, the Commission published a first action plan for innovation in Europe later that year. The action plan proposed a general framework for action by the European Union and member states for improving the innovation environment in Europe. One of the conclusions in the action plan was that the legal and regulatory environment in Europe needs to be adapted and simplified. In particular, the Commission considered that the European patent system should be made more efficient, more accessible and less expensive and promised a Green Paper on the Community Patent Convention which at that time was (and still is) not in force. This Explanatory Memorandum relates to the promised Green Paper.

2. The Commission's first action plan for innovation in Europe was the subject of Explanatory Memorandum 12452 submitted by the Department of Trade and Industry on 23 January 1997. The House of Commons Select Committee on European Legislation considered it to be politically important but not for debate at this stage (Report 11, Item 17815, Session 1996–97). The House of Lords Select Committee on the European Communities referred it to Sub-Committee B but did not report on it (Progress of Scrutiny 20 March 1997, Session 1996–97).

3. A Supplementary Explanatory Memorandum was submitted by the Department of Trade and Industry on 11 March 1997. The House of Commons Select Committee on European Legislation considered it to be politically important but not for debate (Report 18, Item 17815, Session 1996–97). The House of Lords Select Committee on the European Communities referred it to Sub Committee B who did not report on it (Progress of Scrutiny 20 March 1997, Session 1996–97).

4. The Green Paper is in the form of a questionnaire and is intended to provide a basis for wide-ranging consultation with industry, SMEs, individual inventors, patent agents and other interested parties on the adequacy of the current patent system within Europe. It suggests ease of obtaining patents, legal certainty and appropriate geographical coverage as essential criteria for the effective protection of innovation in the European Union. In particular, it says that companies doing business within the Community do not have access to a single system of patent protection which would enable rights to be managed centrally and afford greater transparency for competitors, and asks if such a system would be used. The Green paper also seeks views on:

— the patentability of computer programs and software-related inventions;
— the rights of employees in their inventions;
— the formalities involved in obtaining patent protection;
— the use of patent agents and the recognition of their professional qualifications; and
— the operation of the European patent system under the European Patent Convention.

The Commission has asked for responses by 7 November 1997.

A COMMUNITY PATENT SYSTEM

5. The main part of the Green Paper seeks views on a Community patent system and addresses adjustments that might be desirable to the 1975 Community Patent Convention in order to offer users a system that is accessible and legally secure at a reasonable cost. This 1975 Convention is an integral part of an Agreement relating to Community patents signed in 1989 by the then 12 member states. Although the United Kingdom has ratified this Convention, it has yet to take effect owing to delays in ratification by five of the other signatory states.

6. The Community Patent Convention was not subject to formal Parliamentary scrutiny in the same way as Community legislation but the House of Lords Scrutiny Committee did report on Community patents in 1986. The Committee concluded that the Community Patent Convention should be brought into operation without delay, while recognising that the success of the system would depend on keeping down the cost of fees and translations.

7. In order to protect an invention throughout the Community at present, a separate patent has to be obtained in each member state, either by making individual applications to national patent offices or by obtaining a single European patent, designating each state separately, from the European Patent Office (an organisation established by treaty which is *not* an EC institution) in Munich. At the moment a European patent in effect is a bundle of individual national patents but under a Community patent system an applicant would be able to choose that a European patent should have autonomous, Community-wide effect. A Community patent system would also establish Community-wide litigation procedures. Thus, with such an unitary patent system:

— the management of the granted patent rights would be facilitated since there would be no national phase. This would also have the effect of reducing costs, for example, associated with the use of professional representatives;

— the need to bring infringement actions in each member state would be avoided since the plaintiff could bring all the actions before the courts of the member state in which the defendant is domiciled; and

— the creation of a central court competent to hand down decisions on the interpretation and validity of Community patents would offer greater legal certainty.

8. In its first question the Commission asks if industry would be attracted towards the Community patent system if it came into force or does the existing system of the European patent and national patents meet its needs? In this connection the Green Paper also poses the fundamental question whether the Community patent system should be introduced by way of a regulation under Article 235 of the EC Treaty rather than by way of the Community Patent Convention. The Green paper cites certainty about the date of entry into force and ease of extending the system to Austria, Finland, Sweden and future members of the European Union as advantages for using a regulation rather than continuing with the present Convention.

9. The Green paper identified two aspects of the Community patent system, as devised in 1989 Agreement, which might be seen as detracting from its usefulness. The first is the cost of translations of patent specifications into the languages of all member states. It is estimated that on average the cost of translations would be in the region of £8,400 for each specification. The second aspect concerns the judicial arrangements for bringing a counterclaim for revocation before a national court in which an infringement action has been started. The Commission reports that some potential users of the Community patent system take the view that there is too great a risk of a patent covering a territory as vast and economically important as the Community being revoked in all member states by a judgment handed down by a single national court. The Green Paper asks if these are indeed weaknesses of the Community patent in its present form and if there are any further disadvantages.

Translations of Community patents

10. The Green Paper asks for views on various solutions that have been proposed over the years. These proposals involve:

— limiting the translation requirement to the claims of the patent specification while allowing member states to declare that the owner of a patent could not avail himself in that state of the rights conferred by the patent unless it is published in full in an official language of that state;

— requiring a translation of the full specification with the consequence that failure to file this translation would mean that the patent would not take effect in the member state concerned;

— a package solution offering translations of an enhanced abstract of the specification at the time or thereabouts of publication of the application, translation of the claims only when the patent is granted and translation of the full specification before the patentee can enforce his rights in the patent;

— establishing a system of translation on demand;

— requiring the translation of an abbreviated specification containing a summary description which provides the information essential to the understanding of the invention and to the interpretation of the claims; or

— doing away with the requirement for translations altogether or requiring translation of the claims only.

Judicial arrangements for the Community patent

11. The Green Paper seeks views on an arrangement whereby actions for revocation of Community patents could fall within the exclusive jurisdiction of the European Patent Office. Appeal would be to the Court of First Instance of the European Communities and finally on points of law only to the Court of Justice of the European Communities. Thus, contrary to the provisions of the existing Convention, national courts would not have jurisdiction for counterclaims for revocation for Community patents.

Fees for Community patents

12. The Green Paper supposes that the European Patent Office should be in charge of the technical operation of the Community patent system as is already established in the Convention. It also supposes that the procedural fees levied for European patents will likewise apply to Community patents and that the designation fee for a Community patent would be capped so that it would not exceed the cost of designating a limited number of member states. Under the Community Patent Convention renewal fees to keep a Community patent in force are paid directly to the European Patent Office which then distributes a portion of this income among the states party to the Convention. The Green Paper indicates that if the Community patent system were to come into force as the result of a Community Regulation, the body in charge of the Community patent system should retain all the different fees paid by users and the amount of these fees should be such as to balance the budget of this body. With a view to reducing the cost further to users, the Green Paper also suggests that the patent owner might have the option of paying renewal fees for some member states only and so waiving the rights in the patent in the other member states. The Commission asks for views on these suggestions for making the Community patent system cheaper for users.

Links between the Community patent and the European patent

13. The Green Paper recognises a continued role for the European patent, particularly as the Community gets bigger and it becomes ever more difficult for patent applicants to assess the need for the wide geographical coverage of a Community patent, at least at an early stage in the application process. The Commission therefore seeks views on the necessity of a link between the Community patent and the European patent, which would allow conversion from one to the other at any time during the application process.

Harmonisation of the right based on prior use or possession

14. When the Agreement relating to Community Patents was signed in 1989 the signatory states resolved to revise the Agreement to cater for anyone who has used or possessed an invention which is the subject of a Community patent before the patent was applied for. To date there has been no action on this matter and the Green Paper asks if such action is necessary.

FURTHER HARMONISATION OF PATENT LAW AT COMMUNITY LEVEL

The patentability of computer programs and software-related inventions

15. Under the European Patent Convention and the national laws of member states computer programs as such are not patentable but the case law has developed (not wholly consistently) so that software-based inventions that constitute technical solutions to technical problems are patentable. The Green Paper asks whether the differences between judicial precedents in the member states are causing problems and whether the exclusion of computer programs from patentability should be maintained.

Employees' inventions

16. The rules governing the rights of employees in the inventions they make during the course of their employment differ widely between member states. The only common thread is that if an invention is made in the course of the employee's normal duties under his employment contract, any resulting patent belongs to the employer. The Green Paper asks if the differences that exist are such as to justify harmonisation.

FORMALITIES

17. The Green Paper recognises that the different formal requirements such as regards forms to be filled in, time limits to be observed and the format of documents to be supplied, require a detailed knowledge of each national system. However, the Paper acknowledges the aim of the World Intellectual Property Organisation to harmonise requirements of this sort and questions the need for Community action in this area.

USE OF PATENT AGENTS

18. Presently applicants or their representatives are not usually allowed to deal direct from their home member state with the patent office of another member state without having an address for service in that member state. Thus, a single representative domiciled in one member state cannot act for his client in all matters directly with the patent offices of other member states. In some but not all circumstances this is in accord with the fundamental Treaty principle on the freedom to provide services and the Green Paper asks whether clarification is necessary.

PROFESSIONAL QUALIFICATIONS

19. Under Directive 89/48/EEC professional qualifications acquired in one member state must be recognised throughout the Community but member states are entitled to require the person concerned either to undergo an adaptation period or to take an aptitude test. The Green Paper asks whether the qualifying examination that patent agents must pass before being allowed to represent applicants before the European Patent Office could be deemed an adequate qualification for making representations to the national patent offices.

ADDITIONAL MEASURES TO MAKE THE PATENT SYSTEM MORE ATTRACTIVE

20. Recognising the costs associated with enforcing a patent the Green Paper asks for views on some form of legal costs insurance which could be financed individually by each patent holder, an insurance pool joined on a voluntary basis or by all businesses in a given sector, or by public financing (or part-financing).

THE EUROPEAN PATENT

21. The European Patent Office is an international organisation set up under the European Patent Convention and is independent of the Community. The Green Paper asks whether the current structure of this Office entails any disadvantages for users which should be addressed by a different legal structure more closely integrated into Community law.

The cost of the European patent

22. With effect from 1 July 1997 the Administrative Council of the European Patent Organisation reduced the level of some procedural fees and gave applicants a longer period in which to pay others. On the assumption that there will be some further scope for reducing fees further in the future, the Green Paper asks what fees should be reduced. The Paper also seeks views on a suggestion that SMEs, individual inventors and universities should pay a special lower scale of fees.

The distribution of revenue from renewal fees paid on European patents

23. Once a European patent has been granted it effectively becomes a national patent for each of the designated states and renewal fees are payable directly to the authorities of those states. Currently 50 per cent of the renewal fee is passed on to the European Patent Office as a contribution towards its costs. The way in which the revenue retained by contracting states is used varies. The Green Paper states that in some states the retained share of renewal fees is not allocated to activities linked to the operation of the national patent office or used to promote innovation. The Green paper asks for views on the use of European patent renewal fees by contracting states and in particular whether it is appropriate to use this money partly to finance national patent systems.

Translations of European patents

24. The Green Paper estimates that European industry spends some £143 million per year on translating/validating European patents and ask for views of the "package solution" developed by the European Patent Office and described in paragraph 10 above.

MINISTERIAL RESPONSIBILITY

25. The President of the Board of Trade has primary responsibility.

LEGAL AND PROCEDURAL ISSUES

26. None. This is not a proposal for legislation.

SUBSIDIARITY

27. There is an important role for Community-wide action in the field of patents, particularly when this would lead to reduced costs with greater certainty and transparency for those involved in seeking and opposing patent rights. Moreover, national regimes, to the extent that they do not disturb the Internal Market, are also important. Any Community action in this area should therefore aim to improve the synergies that presently exist

between the national and European regimes. For example, SMEs seeking to protect only their local market or neighbouring markets or those producing consumer products of an ephemeral nature will require the rapid and low cost access to patent rights which are provided by the United Kingdom Patent Office and the national offices of other member states. Similarly, larger companies welcome the ability to use national patent systems and the European patent route selectively in their patenting strategies.

28. Furthermore, since the European Patent Office is a *sui generis* organisation under the control of its Administrative Council, the Commission has no role in its running, such as in setting fees charged to its users. The level of renewal fees which are charged by member states for their national patents and hence also for European patents operative in their state, is for the member states alone so that they can pursue policies, for example, to encourage innovation.

29. Action to improve the recognition of professional qualifications of patent agents across the Community is consistent with the Internal Market approach.

30. The Commission's arguments for Community action on employees' inventions which differ widely across Europe will need careful consideration in the light of British industry's views, as will the effects on innovation of any change to the rights of employees in inventions they make. The case made in the Green Paper for Community action on legal cost insurance is not convincing and this will require further study.

Policy implications

31. The United Kingdom has ratified the Community Patent Convention and its early implementation in this form, or some other form acceptable to all member states would therefore be welcome. However, if the Community patent is to be introduced by some mechanism other than the Convention, as noted above, synergy with national patenting regimes is important and the continued operation of the United Kingdom and other national patent offices should not be undermined.

32. Allowing computer programs and other software-related inventions to be patented will require amendment of United Kingdom legislation as well as the European Patent Convention. The implications for such a change in the law will need to be carefully examined for all business sectors.

Compliance cost assessment

33. A separate Compliance Cost Assessment is attached.

Financial implications

34. Renewal fees paid on patents in force in the United Kingdom, whether granted by the United Kingdom Patent Office or by the European Patent Office, are used to support directly the United Kingdom national patent system and to support indirectly the European patent system. If a Community patent were to be introduced in such a way that renewal fees were denied to the United Kingdom patent system, the ability of the United Kingdom Patent Office to support indirectly both the new Community patent system and the existing European patent system would be threatened. The Commission has not yet assessed the financial implications of any of the ideas it is seeking views on.

Consultation

35. Since the Green Paper is essentially a questionnaire the Commission is giving it wide circulation in the Community. In the United Kingdom members of the Government's Standing Advisory Committee on Industrial Property have been invited to respond directly to the Commission and they will also meet to give their views to Patent Office officials. Individual United Kingdom companies with a signficant interest in seeking patent protection in Europe will be also invited to respond to the Green Paper.

Timetable

36. The Commission expects responses by 7 November 1997 and on 25 and 26 November will hold a hearing at which interested parties will be able to comment further on the main points to emerge from the questionnaire. The Commission will then determine its legislative agenda.

Ian McCartney, MP

Minister of State

29 July 1997

COMPLIANCE COST ASSESSMENT: COM(97) 314 FINAL

Purpose and intended effect of the measure

1. The Green Paper is in the form of a questionnaire and is intended to provide a basis for wide ranging consultation with industry, SME's, individual inventors, patent agents and other interested parties on the adequacy of the current patent system within Europe which is a hybrid of national systems and a Europe-wide system administered by the European Patent Office (EPO), an organisation established by treaty which is *not* an EC institution. Thus, the Green Paper identifies the ease of obtaining patents, legal certainty and appropriate geographical coverage as essential criteria for the effective protection of innovation in the European Union. In particular, it focuses on the fact that companies doing business within the Community do not have access to a single system of patent protection which would enable rights to be managed centrally and afford greater transparency for competitors and asks if such a system would be used. The Green Paper also seeks views on:

- the patentability of computer programs and software related inventions;
- the rights of employees in their inventions;
- formalities;
- the use of patent agents and the recognition of their professional qualifications; and
- various aspects of the operation of the European patent system under the European Patent Convention.

Summary of costs and other key information

2. The patents system affords rights to protect innovation and to allow companies to recover their costs incurred in research and development. However, there is no obligation to seek patents. Companies may instead prefer not to disclose their inventions and therefore actions emerging from the Green Paper will generally not result in any direct costs being imposed on business (but see paragraph 14 below).

3. The Commission's intention is to look at possible ways by which the costs to those choosing patent protection could be reduced. These might include:

- reducing the amount of translation needed to put rights into force in the Community, and
- lessening the official fee burden by reducing or eliminating renewal fees returned to or retained by national authorities for patents in force in their territories.

4. However, suggestions as to changes in jurisdiction for patent infringement and revocation actions could prove more expensive.

Business sectors affected

5. All business sectors which are involved in technical innovation, either as innovators or users of innovation are affected. The particular areas where cost implications arise, identified in paragraph 3 above, are as follows.

Translations

6. Currently, it is estimated that the cost of translating a typical patent into all Community languages is £8,400. In 1996, UK companies applied for 3,300 European patents. If all of these proceed to grant and subsequent validation in member states, the total translation cost to UK business would amount to £28 million. However, the Green Paper explores various options for reducing the translation burden and, in the absence of any specific proposal it is not possible to say that UK business would necessarily save this amount. Depending on any proposal, the translation savings could range from £0 to £28 million.

7. Those involved in the translation sector will, of course, suffer from reduced demand. The financial impact of this can be assessed from the figures quoted above.

Official fees

8. Again, in the absence of specific proposals it is not possible to identify cost impact. However, if a Community patent system were to emerge and designation fees (currently payable under the European Patent Convention) were abolished, this would save on average £560 per application, implying a cost saving to UK industry of £1.8 million. However, it would be more likely that designation fees will still be payable, but may be reduced.

9. To the extent that renewal fees will be levied centrally in Europe and will support only the costs of grant through a Community system, renewal fees across the Community could be expected to fall by more than 50 per cent per annum since no money would be retained or returned to national authorities and the amount would be lower than the total renewal costs across all member states.

LITIGATION

10. The Green paper suggests that infringement actions may be taken to national Courts, however most such actions are accompanied by a counter action to revoke the patent. The Green Paper suggests that such revocation actions should be dealt with centrally at first instance by the EPO, and, on appeal, to the Court of First Instance of the European Communities.

11. Such a splitting of responsibility will involve inefficiencies and delays which will inconvenience both parties to a dispute and are likely to involve significant costs in presenting cases in different Courts. Ahead of concrete proposals, it is not possible to quantify such effects.

EXTENT OF CONSULTATION

12. Since the Commission's own deadline for comments is 7 November, consultees have not yet considered the cost implications of the Green Paper. It should be remembered that the Green Paper is only seeking views. In the United Kingdom members of the Government's Standing Advisory Committee on Industrial Property (list of members attached) have been invited to respond directly to the Commission and will also meet to give its views on matters raised in the Green Paper to officials of the Patent Office. In addition, United Kingdom companies with a significant interest in seeking patent protection in Europe, will be invited to respond to the Green Paper.

EFFECT ON SMALL BUSINESSES

13. It is likely that few SME's need EU-wide patent protection, and if they do require protection outside the UK it is unlikely that they will require protection in all member states. Concern has been expressed that national patent regimes should continue to flourish since this is where SME's often seek protection.

OTHER MEASURES IN THE GREEN PAPER

(A) *Employee inventions:*

14. The Green Paper acknowledges that inventions made by employees in the normal course of their employment belong to the employer. This is the present system in the UK though the 1977 Patent Act provides for employees to be compensated for inventions of outstanding benefit to the employer. However, if a proposal for adopting a system such as that used in Germany were to emerge (whereby, in some circumstances, there is statutory provision for compensation to be paid to the employee and an obligation to exploit an invention) the additional costs to employers for paying out such compensation and for taking out additional patents to protect their position (whether national or European) could be large and there might also be implications for UK innovation policy.

(B) *Software inventions*

15. It is not clear at present whether a proposal to expand the patentability of computer-related inventions will be made. Such a proposal may have significant commercial consequence and compliance costs will be investigated should a proposal be made.

EFFECTS ON INTERNATIONAL COMPETITIVENESS

16. Since more than 50 per cent of patents applied for at the European Patent Office are from applicants outside Europe, it may be that improving and centralising grant procedures within the EU could be of greater benefit to non-EU companies and increase *their* competitiveness within Europe.

ALTERNATIVE APPROACHES

17. The Green paper, being a questionnaire, is seeking views on a range of alternatives.

Examination of Witnesses

MR PAUL HARTNACK, MR GRAHAM JENKINS and MR SEAN DENNEHEY, the Patent Office, called in and examined.

Chairman

251. Mr Hartnack, welcome to you and your colleagues. Thank you very much for your written submissions and for coming along to see us this afternoon. Do you want to make an opening statement yourself, or would you rather that I simply questioned you?

(Mr Hartnack) I think it is probably easiest, my Lord Chairman, if you move straight to questions. You have seen our explanatory memorandum.

252. What we have here, as it appears, is a proposition which ideally everyone would want—namely, a patent which is valid throughout the Community. The question is, will it work sufficiently well to be taken up by industry or in relation to the existing patents in your office or national patents granted through Munich? Will it remain a white elephant which no one will want, principally on grounds of expense and problems about enforceability? Those seem to be the issues. Perhaps by way of preliminary you might sketch for us why it is that ideally people want this kind of patent?

(Mr Hartnack) I think it follows as the night the day that people would like bureaucratic systems which are simple, cheap and easy to enforce. The difficulty in patents and in other aspects of international property is that effectively the state is giving a monopoly right to applicants. That in its very nature, certainly in this country, means that Ministers have concluded throughout this century, and under different administrations, that there has to be a proper search and a proper examination of the claims of the applicant. That, in the nature of things, means it is a fairly long drawn-out and bureaucratic procedure. By extension, people would like at least the efforts which we have made in Britain to make our procedures as unbureaucratic as possible to be replicated in Europe. However, that again is a problem because, of course, we have different traditions in terms of the way in which patent applications are handled across Europe, and we have a language problem and cultural differences between our various countries, which make it an objective which is perhaps more sought after than likely to be achieved in the short run. I suspect that is why our Standing Advisory Committee on Industrial Property took the position in relation to this proposal that whilst it was enthusiastic about the idea of a Community patent which was hopefully going to be cheap and easily enforceable, it wanted both the national Patent Office and the European Patent Office's existing bundle of patents to be retained until such time as the Community patent had proved itself.

253. So the Community patent would have to compete in the market with those two other routes?

(Mr Hartnack) I believe so.

254. What view did you get from the Standing Committee as to the likelihood of its being able to do so?

(Mr Hartnack) The Community patent has been around as a concept for 25 years. It has so far stalled on the two problems which you identified: language and the issue of enforcement. There have been other issues around the margin, so that, for example, one or two countries have been concerned about the extent to which it would facilitate non-European companies enforcing additional monopoly rights in Europe, but that has not been the general view. The main problem has been language and enforceability, and that remains the main problem.

255. What was the original reason why the 1975 Convention failed to achieve ratification?

(Mr Hartnack) As I say, the concept was that there would be a unitary patent, but that it would have to be translated into all the European languages, which meant that some of the smaller markets in Europe, which in several cases have relatively uncommon languages, would have added expense by comparison with the *à la carte* system which is available from the European Patent Office under the European Patent Convention. So there was an additional problem of expense. However, I believe that the view of the Standing Advisory Committee under the original proposal was that that was not the main problem, the main problem was the arrangement for enforcement which was envisaged, and that is why the current ideas which have been floated in response to the Green Paper are interesting.

256. While we are on that subject, do you have a favoured system among those ideas, which you would recommend to us?

(Mr Hartnack) I think I should preface any remarks by saying that these are policy matters for the Lord Chancellor rather than for the head of the Patent Office.

257. Perhaps I could put the question slightly differently. You are obviously very much in touch with industry and you have your Standing Advisory Committee and so forth. Do you have any ideas on what you think is most likely to be acceptable?

(Mr Hartnack) Clearly the Standing Advisory Committee would prefer a route of appeal to a single European court. That implies, I think, a court which sits within the European Union rather than within the national Member States, though the idea of courts within the national Member States having this Community competence has been floated. There are a number of interesting ideas on possible intermediate steps one of which, for example, has been canvassed by the patent judges in this country. It is that the enlarged boards of appeal of the European Patent Office might include experienced national judges such as, for example, Sir Robin Jacob or Sir Hugh Laddie from this country. The hope is that this would produce jurisprudence which European judges in general would tend to follow, and one would get harmonisation—if I might put it this way—by the back door. So that may

[Chairman *Contd*]

be an intermediate step and one which is more easily achievable than setting up a major new institution.

258. If one did that, then those patent judges sitting on the Board of Appeal in Munich would still be dealing only with opposition proceedings, in effect, would they not?

(Mr Hartnack) Exactly so, yes.

259. You would still have problems as to where you dealt with the validity of European patents?

(Mr Hartnack) Yes. The view of our Standing Advisory Committee is that it is important, if we can achieve it, that both validity and infringement are dealt with in the same forum.

260. Therefore .....

(Mr Hartnack) Quite so. These things take time, though, my Lord Chairman, and as I said at the very beginning, it has been 25 years that Europe has been discussing a Community patent. We have had these two fundamental difficulties. Therefore, I suppose the response I am giving you is that if in the next, say, five years we can make some progress in an almost informal way in this area, it will be helpful to European industry.

Baroness Elles

261. I think you said that language was one of the two problems which arose with regard to setting up a Community patent system. I think we have had quite a lot of evidence that English is now believed to be the possible language which will be acceptable right across the board. Is that correct, and do you see that as a possibility for at least dealing with that particular problem?

(Mr Hartnack) The position is that about 70 per cent of all patent applications made in Europe are filed in the English language, and I believe that about 20 per cent are filed in German and 10 per cent are filed in French. It was certainly the position at the Luxembourg hearing on the Community patent, which was held last November, that representatives of European industry suggested to the Commission—including representatives of French industry—that they would be prepared to accept English as a common language for patenting in Europe, certainly as far as the procedures are concerned. So the idea was that people might file in their own language, but thereafter all the procedures would be in English, and this would save a lot of money. The difficulty is that that view on the part of European industry was not shared by government representatives at the conference, and it is my view that it remains a major obstacle.

Chairman

262. Various proposals have been put to us that if we cannot have one language can we have three languages, like the proceedings in the Patent Office, or can we have only bits which have to be translated—say, the claims rather than the whole specification—or can we delay translation until a later stage. Do any of those seem to you to be feasible?

(Mr Hartnack) I think I would like to preface my remarks by saying that of course it would be nice if people could accept the inevitable logic of English!

Baroness Elles

263. It does not seem to be inevitable, though.

(Mr Hartnack) The situation is that a number of states in Europe take the position that there is a constitutional objection—not just patent law but a constitutional objection—to anything other than an absolute and complete translation of the terms of a monopoly granted in one's country. Other states take a less fundamentalist view and argue that there is a problem in particular for small firms who might unwittingly find themselves hauled into court for infringing a patent for which they only had perhaps an enhanced abstract. As far as the United Kingdom is concerned, I think we would be very happy if English were the sole language. I think we would be profoundly unhappy if English were not the sole language and it were another one of the various European languages.

Chairman

264. I was just trying to imagine what some of our newspapers would say if some English manufacturer were brought into court for infringement of a patent which was available only in German.

(Mr Hartnack) Quite so. This is the difficulty. As far as the enhanced abstract is concerned, this is an idea which the European Patent Officer put forward. From the point of view of patent professionals, that would probably be sufficient. We already work with online searches of databases which give us, for example, abstracts of Japanese patents in English. They are considered sufficient for us as professionals to do our work on search and examination. The difficulty is for small firms. So one has this spectrum of constitutional objections and almost philosophical objections in terms of the role of small firms in the innovation process to anything other than full translation. If I can pick up your point, it might be that the first step towards reducing costs would be to revert to the position which existed when the European Patent Convention was signed in 1973, which was a three-language solution.

Lord Wigoder

265. My Lord Chairman, I ought to know the answer and I do not. Would unanimity be essential for a decision on these issues?

(Mr Hartnack) For a regulation to harmonise on the translation issue or the legal issue, unanimity would be required in the European Union.

266. Do you see the slightest prospect of that, in view of what you have said?

(Mr Hartnack) I think it may take quite a long time, my Lord. There are all sorts of possibilities which have been floated in this area, and they are all with their different difficulties. For example, my Swiss

[Lord Wigoder *Contd*]

colleague suggested that perhaps one might have a club of European Patent Convention Member States who would take, in effect, a self-denying ordinance in one area or another. The difficulty with that, though, is that one creates, if one is not very, very careful, greater confusion rather than greater certainty, with different regimes on things like translations in the different markets in Europe. So I believe this will take time. Perhaps the main agent for change will in fact be market forces, because over the next ten years a lot of new countries are going to join the European Union in all probability, and almost all of them have a different language. When that happens—if it happens—the administrations of those countries are going to have to make quite a hard choice, which is whether they want patents in their countries which will facilitate technology transfer into them from abroad and whether, if they want those patents, they will insist on having them translated into their native tongue. If the costs of that are going to be very high, perhaps people will not designate the Czech Republic, the Slovak Republic, Poland and so on. So European patents will perhaps not designate those countries, they will not generate renewal fees from the patents being enforced—which is a not inconsiderable issue as far as national treasuries are concerned—and they will not have the benefit of transferred technology. So it could well be that in relation to the less common languages in Europe—that is, not English, French and German—there will be market pressure to go for some sort of compromise on the language issue, but I am just speculating, of course.

Chairman

267. Is there not political pressure to go for something at present, as of now?

(Mr Hartnack) Not really. The pressure is from industry, to try to reduce costs. I think the main pressure which I have encountered over the last year or two has in fact been from across the Atlantic rather than from European industry which obviously would like reduced costs but has not been quite so vociferous.

268. What would be unfortunate is if, as a result of the views of governments prevailing on questions like translation, a regulation were to be passed requiring quite expensive translation, setting up a system of courts which was not regarded as altogether satisfactory but which was a sort of compromise, and then fresh premises were taken in Munich, they waited for business and nobody came.

(Mr Hartnack) As I believe I have intimated, I think the Commission is very much alive to the fact that after 25 years of debate about the Community patent mark I, effectively the market will decide. I think it is seized, following the hearings in Luxembourg, of the fact that the market wants these things to be cheap, easily enforceable and so on. As far as setting up a system actually to administer it is concerned, in theory the Community system could be administered by a new body, or indeed it could be administered by national patent offices within a harmonising Regulation. As a matter of practicality, I think we should assume it will be administered by the European Patent Office but I would not expect the additional costs to be incurred by the European Patent Office to be enormous. As a member of the EPO Administrative Council I would look with a very jaundiced eye on any suggestion that there was massive new expenditure required, because these would be the same people who administer the patents currently applied for under the Patent Co-operation Treaty and under the European Patent Convention.

Lord Wedderburn of Charlton

269. It is interesting looking at the idea of the pressures that will come from new markets and states which enter the European Union, but in the same five to ten years one perhaps should give some consideration to other much larger markets. The obvious examples are China and the like. Does the imagination stretch that far in considering what we ought to do about not just language but the whole structure?

(Mr Hartnack) In relation to this particular Regulation, this is very much a Community issue, and I referred to the countries of Central Europe simply because they are an important group. The Regulation would not run to the rest of the world. The issues there are in connection with the Patent Co-operation Treaty where translation is required, and the only thing on the horizon in that area is a draft Patent Law Treaty which again I would not expect—subject to what Graham Jenkins says—to have anything to say on the issue of translation.

(Mr Jenkins) My Lord Chairman, certainly there is a Patent Law Treaty being discussed before the World Intellectual Property Organisation. This essentially looks at formalities and is seeking to reduce the burdens across the world by setting a maximum ceiling on the formal requirements which patent offices across the world may require of their applicants. There has been some discussion—as yet it is at the beginning of discussions—as to whether things like priority documents should, as a matter of course, always be translated by members of the Patent Law Treaty. As I say, these discussions are at a very early stage and it would, I think, be folly at the moment to speculate as to whether any reduction in translations would emerge from these discussions of ideas.

Chairman

270. Following up Lord Wedderburn's question, is there any case for a more inclusive Convention than in the European Union?

(Mr Hartnack) The position is that discussions take place on a regular basis between the European Patent Office, the United States Patent and Trademark Office and the Japanese Patent Office, under a so-called trilateral. These are aimed more at harmonising the formalities and the procedures of patent offices than in dealing with these semi-political issues. So that while they may have effects and impacts on costs by, for example, the possibility of mutual recognition of search results, I would not

[Chairman *Contd*]

expect them to address issues such as translation because they are essentially matters of national competence.

271. Does anybody else want to take up the question of translations any further? If not, I want to go back to the judicial arrangements point which we were talking about earlier. Really we had only got as far, in our earlier discussions, as the notion of sending Laddie and Jacob to Europe to breathe some fresh air into the EPO, but obviously we are going to need more than that. You said—and I think everybody is unanimous—that we want a system in which infringement and validity are tried in the same courts. Those courts therefore are going to be either national courts or supranational EU courts. I understand—and you will tell me if I am wrong about this—that one of the points upon which the original 1975 proposals foundered was the notion of having a national court able to revoke a European Union-wide patent. Is it right therefore to say that having national courts having that power is a non-starter?

(Mr Hartnack) It depends on the arrangements for appeal.

272. You think that would be sufficient; that if one had a common court of appeal which was held in sufficient respect, that would allay the fears of—I do not want to name a particular country—some national court, which was perhaps less experienced in dealing with patent law than another, disastrously revoking somebody's patent?

(Mr Hartnack) My experience, my Lord Chairman, is that that is not so much the risk as the reluctance of one or two national courts in Europe to declare that one of their nationals has infringed. That is perhaps the area in which some form of appeal to a supranational body is desirable. I have to say again that really these are matters which are outwith the competence of the Patent Office and are for the Lord Chancellor. All I can comment on is our general experience which, as I say, has been that there have been problems with the enforcement of patents in one or two European countries.

273. The point which has been raised with us has been not merely the quality and, as you hinted a moment ago, the integrity of the decision, but also the speed of the decision. It is notorious that there are some national systems which are not so fast, and that if you are an infringer wanting to put off the evil day you go to a country which is not so fast and seek a declaration of non-intent.

(Mr Hartnack) That is right. One is in the area of Brussels where again I have heard this does not work terribly well. One is in the area of the Dutch attempts to provide supranational injunctions. I would simply say, in terms of the area of my competence, which is the European Patent Office and the way in which it works, that while major new supranational organisations would no doubt be an improvement on what is available at the moment, simply injecting some British nous into the way in which they operate and encouraging judges from elsewhere around Europe to participate so that there is, in effect, an enlarged club, might have as much practical impact as something much more fundamental.

Chairman] Thank you very much. Does anybody else wish to pursue the question of courts?

Lord Wigoder

274. If there were national courts with the right of appeal, would the appeals be by way of re-hearing, or would the appellant have to prove that there was some sort of fundamental error as a matter of law before there could be an appeal?

(Mr Hartnack) After being, with apologies and regrets, a little unhelpful, perhaps I could say that Sean Dennehey, who is the Director within our Patents Branch is responsible for legal matters, has tried to analyse the various options in this area and perhaps could talk a little about the various options which are available in terms of whether they are appeals on points of law or re-hearings.

(Mr Dennehey) My Lord Chairman, please stop me if you feel I am going off the point or if I am going into areas which are too detailed for the Committee. What we have been trying to do is simply to think about what situation might exist post a Regulation or Convention. One does not know at this stage what mechanism might be developed. The focus of the Green Paper seems to be on Community patents and the arrangements for litigating those. It is easy to overlook the fact that if the views among interested circles were to be respected, then national patents and European patents themselves would also remain after this Community patent watershed, and the need to maintain consistency would have to spread not only across the playing field of the Community patent but also European patents and national patents as well, since obviously an applicant could, in different countries, have patents covering similar items. The desiderata seem to be consistency, predictability and speed. If I may pick up your earlier point, my Lord Chairman, putting all one's eggs in one basket, whether it is a supranational court or a supranational patent office, does not always lead to speed in these matters. One question which one would need to bear in mind is the ability of a supranational court to deal swiftly and effectively with what would be presumably a very heavy workload if the hearings of first-instance actions or appeals were to be directed to its doors, particularly if it were going to be a first-instance court which would therefore be taking the bulk of the work from our patents courts and, of course, the corresponding courts across Europe. The questions of cost and simplicity of procedure are also very important. We have become very familiar in this country with the proposals following Lord Woolf's report *Access to Justice*, but trying to amalgamate within a central body within Europe the traditions of this country and the continental traditions and the different approaches which they bring to the hearing of cases may present a problem which is just as great as the one of translations.

Chairman

275. The European Court of Justice is always held out to us as an example where they have done that.

(Mr Dennehey) Indeed, and it is a forum within which judgments are produced very efficiently. It is, on the other hand, one in which—how shall I put this—it may not be most appropriately suited to the intricacies and the arcane areas of patent cases which can perhaps sometimes revolve around areas which are more specific and therefore may call for a very different approach if they are to be effectively resolved, as compared with the greater generality of cases which are heard by the European Court of Justice. There is also the question, reverting to the point which was originally asked, of whether a central European court on appeal would admit fresh evidence, would deal with points of fact as well as law. It has to be a question to be considered carefully as to whether the appeal mechanism would be effective if it were restricted only to matters of law, since in patent actions the two can be very closely linked. The question of proportionality is one which one might want to bring to bear also, the idea that within the European framework actions which were of less value—and I will not attempt to define what I mean by "less value"—should perhaps have some cut-down route by which they were decided on the papers, as a shorthand, with a less involved procedure, so as to reach an outcome more cheaply and more efficiently. That is also an area which one would need to consider. Then moving from that, there are all sorts of points—rules of procedure almost—which one might want to give thought to in terms of cross-examination, evidence and so forth. I do not think I need to go into the details there. I think it would be desirable, our users would tell us, for the court to be accessible in the same way that the patents courts have become accessible and judges are accessible and carry a high profile. With that one gets down to such practical things as whether the court would have a fixed location, be peripatetic, prepared to hear actions in different places, if one were looking at a central single court rather than national courts. I am happy to elaborate, but I think perhaps I have said enough.

276. Thank you very much, that has been useful. A number of witnesses whom we have had have said that they feel there is scope for further harmonisation in patent law. Do you have any views on that?

(Mr Hartnack) It is obviously in the interests of the user, particularly the large user, that all the pettifogging, bureaucratic details are the same across the whole of the world. I think there is a role, in the context of the Community patent and the European patent, for some work, for something to be done about this, but as Graham Jenkins said in answer to a previous question, we tend to feel that it is best to leave that to the World Intellectual Property Organisation so that any harmonisation is truly global as far as the detailed requirements are concerned.

277. Thank you. There was a reference to whether it was going to be a Convention or a Regulation. On the whole, the assumption seems to be that it would be a Regulation if it were going to be a Community patent. Would there be any advantage to doing it by a Convention?

(Mr Hartnack) You would not need to have everybody in it from day one. On the other hand, though, if you do not have everybody in it from day one, then you do not have a single-market action covering the whole of the European Community. So it is certainly better, we think and our Standing Advisory Committee thinks, to start with the idea of a Regulation so that things come into force on a certain day in all countries of the European Union, and it is very much a second best if it has to be done by way of a Convention.

278. The European Patent Office at present, of course, functions under a Convention and has members who are not members of the Community. That is going to run in parallel with the Community patent, is it not?

(Mr Hartnack) That is certainly the preference of our users—that they should be able to choose bundles of national patents issued by the European Patent Office under the Convention, or unitary Community patents if they come in as a Regulation or a separate Convention, or patents issued by the EPO under the Patent Co-operation Treaty, or indeed individual patents taken out in individual national patent offices.

279. Is there any mileage in having procedures whereby you can swap from one to the other without having to go back to square one?

(Mr Hartnack) It is certainly the view of our users again that they would like the opportunity to do that. There may be some difficulty in the sense that, by way of example, if someone were to choose a European patent designating only Germany and France and then decided at some later stage that they wanted a Community patent covering Britain, consumers in this country would be in a state of relative uncertainty. So this idea would have to be examined with some care as to what precise arrangements were made for switching.

Lord Plant of Highfield

280. Could I follow on from that, but with a slightly different point. I realise your answer to it is going to have to be speculative, but I would be interested in your speculation. As I understand it, part of the history of pressure for a Community patent is perhaps a feeling that the European Patent Office itself is not the most efficient body in the world, in the sense that it is time-consuming and so forth to get patents under the existing European patent. It does seem slightly implausible to ask an organisation, which is itself already not efficient in terms of the time consumed in granting patents, to operate a more complex system under which it is granting both European patents and Community patents. It seems rather implausible to suggest that this is going to be an increase in efficiency. Could you say why the users think it is going to be more efficient for the European Patent Office to do something more complex more efficiently than it is currently doing less efficiently?

(Mr Hartnack) This is a highly political issue, my Lord Chairman. There are effectively two camps in Europe and they are divided basically between those countries which have a patents system which involves

[Lord Plant of Highfield *Contd*]

searching and examining and those countries which do not. The countries which have a searching and examining system are essentially the United Kingdom, the Nordic countries, Austria and Germany and very recently Spain. All other countries essentially have a system which either searches but does not examine or simply registers. The reason for the difference is perhaps the relative difference in the cost of litigation in the respective countries, because our common-law tradition tends to mean that patent litigation is more expensive in this country than it is in, say, France. The reason why this becomes political is that those countries which do not search or which do not examine believe that countries like the United Kingdom should stop maintaining national patent offices and should send all patents to Munich and be—to use the word—*communautaire*. That, as I have indicated, poses a practical problem for applicants, because patents in the United Kingdom are cheap if you want a national patent and European patents are expensive. Where this leads one to in trying to answer your question in a direct sense is that it is unlikely that the Community patent, at least initially, will be attractive to small firms; essentially it will be attractive to larger companies who wish to cover the whole of the European Union—15 countries rising to perhaps 30—in a single application. They will want to do it, perhaps despite the language translation problems, because they are looking for greater certainty in the enforceability of their patents. That means they will be prepared to pay. I believe it is almost inevitable that Community patents will be expensive, because otherwise people would never get them. People would apply for them in such large numbers that the European Patent Office, with the best will in the world, would never get round to searching and examining them because of its backlogs. I am just speculating, of course, but that is the way things are at present in relation to some of the more difficult technologies.

Chairman

281. You are on the Administrative Council. We all know that there is a lot of complaint about delay in the European Patent Office, particularly with opposition procedures which seem to go on forever. Do you know whether anything is likely to happen to improve that?

(Mr Hartnack) The position is that the European Patent Office works in three languages—English, French and German. It recruits engineers who are trilingual. There is a limited supply of such people, particularly from the United Kingdom. The procedures it operates are the same regardless of the technology, so that in the most difficult technologies—electronics and biotechnology—the EPO still insists on trilingual engineers and scientists. What the European Patent Office is seeking to do, by a project called BEST (Bringing Examination and Search Together) is to integrate its search and examination facilities, which at the moment are separated in The Hague and in Munich, by allowing online electronic interrogation of its various databases. Frankly, this is not going to be a long-term solution if there is a massive increase in demand. What I suspect may happen is that people will switch from the existing routes—the European Patent route and the Patent Co-operation Treaty route—into the Community patent because of their search for legal certainty, and the net increase involved may not be that great. If it is, then we may have a problem, and it will be a political problem because of this division in Europe between those who say everything should be centralised and those who say there is no problem in having national patent offices.

282. Is there any administrative alternative to giving the job of searching and examining the European patent to the EPO?

(Mr Hartnack) The alternative is to subcontract.

283. To you?

(Mr Hartnack) I would not want any subcontract work at the moment, because our demand has risen in the last three months and my examining colleagues are saying that our targets are too draconian. But there are offices in Europe which would be glad of subcontract work, such as, for example, the Danes and the Austrians, where they have lost work as a result of the switch of their demand to the European Patent Office. To repeat myself, there is a major political problem in persuading the rest of Europe to give them the work.

Lord Wedderburn of Charlton

284. Presumably they lost work because they were inefficient in the market?

(Mr Hartnack) No, my Lord, it does not work that way. Essentially each patent is a national right. What we have done by setting up the European Patent Office is, in effect, to pool the work done previously by each national office in Europe in considering whether people should have patents. There are 18 Member States of the European Patent Convention, including all of the European Union, plus Switzerland, Liechtenstein and Monaco. The EPO can therefore afford to be less efficient than any national patent office and still attract demand if applicants want to patent their inventions in a number of Member States.

Lord Wedderburn of Charlton] That is very interesting.

Lord Nathan

285. I have a related question really in two parts. Assume that there is some form of Community patent. Who will determine what is patentable? That might divide itself under two heads. There is, for instance, the small question as to whether an item is patentable on ethical grounds, that sort of point. The other is the question of whether, for instance, the claim is too wide or something of that kind, like the case which we are concerned with, and we heard about that sort of point. Who would make that decision? It would have to be applicable obviously Community-wide. The second thing which occurs to me is whether there is any possibility of a difference, on that ground or in relation to jurisdiction on any other matter, between the people—I will put it neutrally—determining these matters in the context of the Community patent and the

[Lord Nathan *Contd*]

people deciding it in relation to the European patent. Is there any possibility of conflict between those two, even though they be perhaps the same people who are going to determine it? That seemed to me to have a certain relationship to the question of whether the Community patent was to be created by Convention, which would not be a part of Community law itself, or by Regulation, in which case it would be. I am afraid these are rather complicated questions, but they did occur to me.

(Mr Hartnack) As far as broad claims are concerned, the step which I and Sir Robin Jacob and Sir Hugh Laddie have tried to pursue, of bringing national patent judges with experience of these matters onto the boards of appeal, should result in decisions being harmonised across Europe so that broad claims should be less of a problem than they are at present. Hopefully if one can achieve that first step in, say, the next five years, then by the time one gets a Regulation in this area—and in the nature of things I think one is looking at a timescale of rather longer than five years—then a certain amount of case law will have been established. That is a very superficial answer to the first part of your question, I am afraid, but I really cannot see any other way of conceiving it beyond pure crystal gazing. As far as ethics are concerned, as I think I mentioned in another place, my Lord Chairman, we have a problem with animals. The Biotechnology Directive in draft as it is now and the views of the European Patent Office's boards of appeal as they currently stand is that patent examiners should somehow form a judgment on the relative benefits to mankind of particular Conventions and the relative suffering of, for the sake of argument, animals. That is a very difficult job for a patent examiner to take on, it seems to me. My own view, as someone viewing it in the British Patent Office, is that what our office should do is to give the applicant the benefit of any doubt and then allow either the applicant, or those who on ethical grounds oppose the idea of his or her being granted a patent, to argue in front of the courts. If Parliament then is unhappy with what the courts decide, it is for Parliament to change the law, whereupon our examiners would follow what Parliament said in the new context. So hopefully one would have a fairly circular arrangement. I can see the same situation in relation to a Community instrument in this area, in the sense that if the European Patent Office is taking too broad a view on morality or too narrow a view on morality, then the courts, be they supranational or a national court, would form a view on that, and Brussels would have to produce a new draft Regulation to rectify the situation if it was not content.

Lord Goodhart

286. Could I raise another question on the subject of Convention against Regulation. We have been told by some witnesses that the principal problem with the Regulation is that you cannot by Regulation set up a free-standing Community patent court, and that that would need either a Treaty or a Convention. Is that correct, in your view?

(Mr Hartnack) I have heard an eminent patent judge take an opposite view, my Lord. Frankly, it is such a difficult issue in terms of Community law that it is something which only the Lord Chancellor's Department can answer, and then after a great deal of study because, as I say, I have heard opposite views. I have heard on the one hand that it can be done and the Regulation would allow it, and on the other hand that it is contrary to the Treaty of Rome.

Chairman

287. If there were to be a Regulation, would that mean that the Community would become, so to speak, an independent unit in international patent negotiations?

(Mr Hartnack) There is an issue of competence here. That again is something which Ministers will have to look at in deciding what they prefer.

288. Can I ask you lastly about the question of renewal fees. As I understand it, the EPO runs on renewal fees, is that right?

(Mr Hartnack) I have brought some figures with me, my Lord Chairman. The position is that the European Patent Office effectively started operating in 1978/79. It grew from effectively zero to around 70,000 applications a year by 1990. Demand then stabilised for about five years. Since then it has started growing again and demand is currently running at about 100,000 applications a year. The EPO receives 50 per cent of the renewal fees paid on patents granted which are valid in whichever Member States are designated. In the nature of things, since patents last typically for about ten or 11 years, for most of its life it has been receiving less in renewal fees than it would have received if it had been a steady state, because it has been growing. The effect of this is that about 30 per cent of its costs are covered by renewal fees and the rest are covered by procedural fees. The converse is true for national patent offices where their demand has tended to decline over the last 20 years, though there has been a stabilising over the last five, but they are effectively earning money based on patents granted ten years ago rather than five, and they are also making more money because the EPO is increasingly generating renewal money. So one has a very complex situation. If I may anticipate a possible question, there has been argument, as I said in answer to a previous question, about the cost of the European system. People have said in relation to the Community patent that it should be no more expensive than the United States' patent. It may be of interest to you, my Lord Chairman, that the average cost of a European patent until grant, I was told this afternoon by a colleague in Munich, is 8,500 deutschmarks, which is a little less than £3,000. This is up to grant which might be five or six years downstream from the initial application. The actual procedural cost of a United States' patent—these are all at today's rate of exchange—for basic filing is £470, for grant £79 and a maintenance or renewal fee is charged at year three and a half of £629. Comparing like with like, a US patent costs about £1,900 up to grant and an average European patent

[Chairman *Contd*]

costs about £3,000, which is not an outrageous difference although it is a significant one. Just for completeness, I might say that a British patent for the same period costs £225.

289. It was put to us that in striking a balance between procedural fees and renewal fees you ought to try to keep the procedural fees down and make up your money on the renewal fees because after all they would be paid by people whose patents are sufficiently successful to be worth maintaining, a progressive tax almost.

(Mr Hartnack) That has consistently been the view of governments in this country. Our initial fees are very low. I think £225, which effectively is payable in most cases over a period of two or three years and even if you want rapid grant is payable over ten months, is really very low. I contrast that £225 with the £1,000-odd that the United States charges for small firms because they offer a 50 per cent discount to their small firms. By comparison, the total costs over the life of a US patent are £5,000 for a large entity and £2,500 for a small one. Our fees over 20 years are £4,000. Although we charge less over the whole life of the patent our fees are very much loaded towards the back end. The justification for that is to encourage market entry companies and individuals to come into the system by keeping costs low, and to avoid keeping unwanted monopolies on the register by having an increasing renewal fee. Hopefully with the passage of time the patent becomes more profitable but if it is not the owner is encouraged to let it lapse.

Chairman] Does anybody else want to ask another question? In that case than you very much, you have been most helpful to us. We can now consider our report. Thank you.

WRITTEN EVIDENCE

Memorandum by The Right Hon Sir William Aldous

I am conscious that people in industry and those who actively apply for, prosecute and litigate patents are more qualified than I am to give guidance upon most of the specific matters raised in the Green Paper. However there are a number of matters of general importance that I believe should be drawn to the attention of the Sub-Committee.

1. The Green Paper never mentions nor considers the rights of the public as individuals.

   (a) Patentees have a number of organisations which provide advice to States and the European Community. The public are not as well represented and I believe that care must be taken to make sure that the public are protected.

   (b) Patents are monopolies granted by the State/Community created Patent Office which are only justifiable if they promote research etc and the dissemination of knowledge. They can restrict competition with resulting increase in cost to the public. The Green Paper considers reform, but any reform must be consistent with the right of the individual to carry on his business without State granted restriction unless it be justifiable in the public interest.

   (c) The Green Paper pays considerable attention to the cost of translations. Any cut back in translation must be weighed against the need and right of the individual to know what he is prevented from doing by a monopoly granted by the State/Community created Patent Office. Surely a person must have the right to read in his own language what he may not do. If so, at least the abstract and claims need to be translated.

2. The Green Paper directs its attention to the position of the Community. Industry is concerned with Europe and the world.

   (a) The Green Paper states (page 1) "We are now witnessing the globalization of our economies". That is true and it will continue to happen. Despite that, the Green Paper looks at the Community rather than how the Community can achieve the ultimate goal of global harmonisation. For example, a Company which seeks global protection has to pay at least for the Patent Offices in Europe, Japan and the United States to examine the same application. It is expensive and requires a number of scientists in those countries to carry out the same work. Thus acceptance of examination in one of those countries, with registration in the others, would lead to considerable reduction in cost and open up the possibility of further patenting by industry. This may not be achievable today, but it and other steps to harmonisation should be on the agenda.

   (b) Steps have been taken to harmonise patent law in Europe. European patent judges and officials meet regularly to exchange ideas so as to improve the service given to those using the European system. To refocus upon a Community patent system would appear to be a retrograde step.

3. If a solution is good for the Community, must it also be good for and applicable to Europe?

I believe the answer is yes. If so, the better solution is for members of the Community to push forward reform of the European system. Introduction of the Community patent would produce two systems which could diverge rather than move together.

4. Paragraph 3.1 of the Green Paper looks to the need for a unitary patent system. If that need exists in the Community, it also exists throughout Europe.

   (a) The problem of translations is a worldwide problem. The solution needs to be worked out by users, *but* the rights of the individual must be protected. If that requires cost, the savings must be produced elsewhere in the system.

   (b) The difficulty produced by different national courts considering the same patent is not in practice as great as it seems in theory. The solution advocated by judges in Europe is a European Supreme Court of Appeal. This might create constitutional problems. That could be overcome by a "Supreme Advisory Panel" which national courts could/have to consult when there is a conflict. It would be able to deal with questions of mixed fact and law and would be staffed by the patent judges of the national courts appointed as appropriate.

The Court of First Instance would not be a suitable vehicle as it could only deal with questions of law to overcome potential conflict between National Courts. Neither is the European patent office. It has as its primary function the granting of patents. Its legal Boards appear to be inward looking and their legal representatives do not have the necessary qualifications to staff a European Court. In any case, there is need for a body to be able to review certain decisions of the European Patent Office.

   (c) There is a need to avoid what has been termed "The Italian Torpedo", EIPR Vol 19, 7 July 1997—copy attached.[1]

[1] Not printed in this Report.

5. Paragraph 3.4 of the Green Paper is concerned with judicial arrangements. The proposals are inward looking. The idea that one court will decide everything throughout the Community is not practicable with the difficulties that arise when granting relief for loss in the various jurisdictions. An injunction may be appropriate in one country and not another. Further, any enquiry as to damages poses formidable problems. The answer is a European Tribunal dealing with infringement and validity where more than one jurisdiction is being considered with the relief being the responsibility of national courts.

6. Paragraph 3.6 considers links to be established between the Community patent and the European patent. We should not create difficulties. The solution must be reform and I see no reason why the European States, if they are prepared to delegate the granting of patents, would not be prepared to adopt a European solution.

7. Reform of the European Patent Office is needed. This should be the result of a review conducted by an independent body.

7 October 1997

Memorandum by The Association of the British Pharmaceutical Industry comprising a position paper prepared by The European Federation of Pharmaceutical Industries and Associations (EFPIA)

A. The EFPIA Position

Although the European Patent Convention (EPC) system has fairly successfully met the needs of industry (the opposition practice is unsatisfactory and costs should be improved), EFPIA welcomes the Commission's initiative to re-launch a Community Patent System, in order to enhance the Single Market, providing certain conditions are fulfilled.

If the Commission were to introduce a new unitary Community Patent System, it would have to be made an attractive option for companies. Briefly it would need to be unitary, cheap and offer legal certainty.

We set out hereunder the fundamental requirements of our industry together with our proposed solutions for a model Community Patent. Under point B, we answer the specific questions raised in the Green Paper.

Co-existence of three systems

If a new Community Patent is introduced, it is essential that the present national systems and EPC system be retained at the same time so that the three systems would co-exist. The existing two systems, whilst not perfect, work well and provide our industry with the flexibility it requires.

Effective judicial system and legal certainty

These are the two main issues for our industry. For this reason, we are in favour of infringement and validity/revocation proceedings of a Community Patent being treated together by a centralised European first instance court. It is essential that this would be a specialised court composed of specialist experienced patent judges.

An appeal (second instance) court should be provided with expertise in intellectual property ("IP") matters also. Final appeal, on significant points of law only, should be lodged with the European Court of Justice (ECJ).

Minimum requirements for the court system dealing with Community patent cases are as follows:

(i) EU-wide jurisdiction on infringement (and of logical necessity validity);

(ii) availability of pan-European *preliminary* injunctions;

(iii) infringement and validity proceedings to be before the same court (and not dealt with separately as in Germany);

(iv) effective means to prove infringement, comprising elements of reasonable discovery, French style "saisie", etc; and

(v) no revocation except as a counter-claim in infringement proceedings.

Translations/Prosecution procedure

An applicant should be entitled to file an application in any Community language to secure a filing date, but would then be obliged to provide a translation into English after a certain period. We see distinct advantages in having a single language, namely English, as the official language for prosecution by the EPO.

The reasons for proposing English as the official language are:

— English is the accepted language of technology;

— Third party States would generally prefer to have an English text rather than a French or German text for example;

— Future enlargement of the EU will make it necessary to reconsider the question of languages;

— This choice would be helpful to SMEs.

Costs/Fees

Fees should be comparable to and competitive with those in the USA.

Other points

— There must be effective provision for patent term restoration.

— The EPO could handle procedural matters relating to the Community Patent and it should become an EU institution.

— There should be no special system of inventor's remuneration and in particular the German and Austrian systems should be rejected.

B. Answers to specific Questions (same numbers used as in Green Paper)

1. and 2. No questions to answer.

3. The Community Patent

3.1 *The need for a unitary patent system*

● Generally speaking, what would in your view be the advantages and disadvantages of patent protection covering the entire Community, in terms of:

costs?

There will be an advantage only if costs are low. They must be internationally competitive, eg with the USA.

geographic coverage?

The proposed EFPIA three concurrent systems proposal gives flexibility for all situations. The reason why our industry needs flexibility is that coverage for the whole EU is not always needed. When an applicant needs less than total EU coverage, he may use the national or EPC systems.

the problem of distortions of competition?

Given that all member States have the same patent term and criteria for patentability since they have all adopted the EPC into their national laws, distortions of competition are not due to the present patent system. A Community patent would not affect the present situation.

the free movement of goods?

It is essential that the mere availability of a Community Patent system, operating in parallel with national and EPC systems, should not affect European free movement of goods law under Articles 30 and 36 of the Treaty of Rome. Specifically, if an applicant chooses to use the national or EPC system to obtain a patent in only one or some of the member States, rather than to obtain a unitary Community Patent by merely exercising that choice, he must not be taken to have "consented" to his product being marketed in member States where he has chosen not to apply for a patent. Community Patent legislation should specifically enact that principle.

legal certainty?

This is the *most crucial concern* which needs to be addressed. Legal certainty will be an advantage if we have a unitary system which conforms with our proposal as described above.

the monitoring of infringements?

Answered above. See our Position (point A).

translation requirements?

We have made a clear proposal about filing and prosecution. The question of translation of abstracts and claims raises itself. The pharmaceutical industry would not be totally opposed to a translation, at the stage of grant, of the claims only, at the applicant's expense. We do not believe that the applicant should be required to provide translations of the specification into all EU languages. However, that could become the role of the national patent offices if the specific State felt a need to have all patent specifications in the national language. The national office could translate the specifications into the local language and then sell them at an economically justifiable price which would cover the investment expenditure.

● What are, in your opinion, the essential conditions to be met in terms of costs and legal structure if such a system is to function effectively?

Costs

A new Community Patent must ensure quality in relation to cost.

Legal structure

As set out under our Position (Point A), we are in favour of a centralised European first instance court that would have to be composed of specialist experienced patent judges. There should be a specialised appeal court and a final appeal before the ECJ.

● If ratification procedures currently in progress were finally to result in the Community patent coming into effect, would you be prepared to use it as provided for in the Luxembourg Convention?

No, we would not as the issues of legal certainty and costs are unacceptable in their present form.

● Any adjustment of the Luxembourg Convention would require the unanimous agreement of the Contracting States, involving either amendment of the Convention or the adoption of a regulation based on Article 235 of the EC Treaty. Do you think that such adjustment would be appropriate, or are you satisified that the European patent together with the national patent systems suitably meet the needs of industry?

A proper Community Patent system would be advantageous provided that national systems and the European Patent system are retained.

3.2 *Apparent weaknesses of the Luxembourg Convention*

Do you share the view that the main weaknesses of the Community Patent in its present form (Luxembourg Convention) are (i) its high cost due to the obligation to have the patent specification translated into all Community languages and (ii) the legal uncertainty associated with the judicial arrangements? Can you see any other disadvantages?

We share the view that the excessively high costs and the legal uncertainty are the two main weaknesses of the system.

3.3 *The problem of the cost of translations and possible solutions*

— With a view to reducing translation costs, are you in favour of a system based on Articles 33 and 88 of the 1975 Luxembourg Convention or the "package solution" developed by the European Patent Office?

We are in favour of neither of these solutions. Please note our Position (Point A) and Point 3.1 above.

— If neither of the above solutions were feasible, would you be in favour of an arrangement that would constitute an exception to the unitary character of the Community patent, whereby failure to file translations would result in the patent not taking effect in the member State(s) concerned?

No.

— Do you regard the other alternative solutions that have been proposed for reducing translation costs as appropriate and promising (translation on demand, shortened description, etc.)?

We are not totally opposed to a translation of the claims only, at the applicant's expense. See above under Point 3.1.

— Do you share the view that centralisation of the filing of translations of Community patent specifications at the European Patent Office, as provided for in the Luxembourg Convention, is an important aspect of the translation arrangements?

It is not necessary (see above under Point 3.1): national patent offices would translate the specification.

3.4 *The problem of the judicial arrangements and possible solutions*

As far as judicial arrangements are concerned, are you in favour of a system:

— which would give exclusive jurisdiction for revocation proceedings to bodies operating within the European Patent Office (revocation division) and, on appeal, to the Court of First Instance of the European Communities?

No. Answered above under Point A—our Position.

— which would leave jurisdiction for revocation proceedings with national courts, while restricting the effects of their decisions to the territory of the member State in which they are located?

Answered above under Point A—our Position. (To have local courts determining infringement for only that member State would lead to different judgements and thus further uncertainty).

3.5 *Fees*

— Should the financial arrangements laid down in the Luxembourg Convention and the European Patent Convention concerning the renewal fees for Community patents be amended such that the revenue from these fees accrues in full to the European Patent Office in order to defray the costs of granting and administering Community patents?

Two different systems exist. The institutions involved should receive revenue according to the services they provide within these systems.

— Given the alternative means of protection available to users (European patent, national patents, etc.), do you consider that further measures are necessary to make the Community patent system attractive, for example a reduction in renewal fees?

Yes. As mentioned above, the Community Patent system must be competitive with the USA. The emphasis should be on later-stage renewal fees, not up-front fees.

Would it be feasible to give proprietors of Community patents the option of partial waiver of the protection they confer, in respect of a limited number of member States, through non-payment of the annual renewal fees?

No, it would not be feasible.

3.6 *Links to be established between the Community patent and the European patent*

Do you think it necessary to establish links between the Community patent and the European patent, for example by making it possible to convert a Community patent application into a European patent application? Would you wish to see any other links established? If so, how could they operate?

If there is conversion, which may be desirable but not essential, it should only be from Community Patent to European Patent prior to grant.

Conversions from EP to CP should *not* be made possible.

3.7 *Other questions*

— Do you think that questions of prior use or possession need to be harmonised at Community level in the context of a new initiative concerning the Community patent?

— Yes, both.

4. Further harmonisation at Community level

4.1 *The need for further harmonisation at Community level*

We are in favour of the rapid adoption of a sensible directive on the patentability of biotechnology products, in compliance with the Commission's First Action Plan for Innovation.

Our industry would also like the question of what constitutes an "experimental use exception" to be addressed. The exception cannot include use of the invention for a commercial purpose. The notion of what constitutes "method of treatment claims" also needs harmonising. And there is a need for a clear harmonised protection for first and second pharmaceutical uses. Further the SPC protection should not be limited to the marketing authorisation wording.

National security clearances for permission to file abroad should not apply within Europe.

4.2 *The patentability of computer programs and software-related inventions*

As far as the patentability of computer programs and software-related inventions is concerned, do you think that:

- existing differences between judicial precedents in the member States are liable to create barriers to trade or distort competition?
- differences between Europe and its main trading partners are liable to create difficulties for European firms?
- these differences call for further harmonisation at Community level in this area?

As far as the patentability of computer programs and software-related inventions is concerned, do you think that deletion of Article 52(2) of the Munich Convention should ultimately be proposed?

- If so, what is your view of the simultaneous application of copyright law and patent law to the same creation or invention?
- If not, do you nevertheless think that the guidelines for EPO examiners should be amended in this respect?

This is not a core interest of our sector, but we are against artificial restrictions on patentability.

4.3 *Employees' inventions*

Are existing differences between member States' laws on employees' inventions likely to have an impact on innovation and employment conditions and/or the freedom to provide services and/or the conditions of competition? Are they such as to justify harmonisation at Community level?

A patent law should contain provisions relating to the *ownership* of inventions but not to the *remuneration* of inventors.

In general if the invention is made in the course of the normal duties of an employee, the employer should own the invention and any resulting IP right, eg patents. There should be no specific system of inventor's *remuneration*, whether harmonised or not.

Any system for compensation such as the German or Austrian systems are particularly not desirable, for three reasons. Firstly, the "inventor" is usually employed specifically to produce inventions and he is paid his salary and other benefits to reflect his duties. Secondly, he is not the only person and often not even the most important person in bringing the invention to the market. That process involves a number of skilled/"inventive" persons whose efforts are all needed in order to achieve a profitable result. There is no reason to consider the inventor of the "molecule" more important than all the other persons involved in the teamwork. To do otherwise would be unfair to other employees who play a major role in the development of a sales product. Thirdly, and more importantly, a compensation system leads to secrecy among the employees because everybody wishes to get hold of the compensation (even if it is marginal compared to the salary). Such systems in fact have a negative impact on innovation by reducing the efficiency of R&D and distorting research in the EU.

Any harmonisation in the EU should be to *remove* existing statutory provisions relating to the remuneration of employee inventors.

4.4 *Formalities, use of patent agents and recognition of professional qualifications*

On the question of the harmonisation at Community level of the procedural formalities connected with the grant and renewal of patents:

- Do you think that such harmonisation is necessary and, if so, that it should cover the use of patent agents, addresses for service and the choice of domicile? Can you suggest any other topics that should be covered?

Representation should be made optional and national barriers should be abolished.

Do you think that any such harmonisation should take the form of legislation (a directive) or of a recommendation addressed to member States?

While the Commission must choose whatever is the appropriate way to enforce harmonisation, EFPIA believes it must be an effective means such as a regulation.

4.5 *Additional measures to make the patent system more attractive*

To make the patent system more attractive, particularly for SMEs, how do you think that implementation of the protection afforded by patents could be facilitated? What are your views on the possibility of introducing legal costs insurance in the patents field? Do you consider that additional harmonisation measures need to be taken at Community level in this area?

We believe our proposed system would be very much in the interest of SMEs.

While introducing legal costs insurance in the field of patents may be appropriate, it is a matter for private schemes, eg as in the UK, rather than for an institutionalised scheme.

5. The European Patent

5.1 *General structure of the European patent*

Do you share the view that the current structure of the European Patent Office, a body which is independent of the Community institutions, does not entail disadvantages for users which should be overcome through a different legal structure which is more closely integrated into Community law?

As stated above, if the EPO is to handle the Community Patent, it would be appropriate for it to be an EU institution, but the details of this legal structure will require much discussion.

5.2 *The problem of the cost of the European patent*

5.2.1 Fees

If, while maintaining standards of quality and efficiency, the European Patent Organisation were in a position to continue its drive to control costs and further reduce the fees charged by the Office, which fees should be reduced as a matter of priority?

Inter-parties opposition is important. The present system for oppositions is far too slow, leading to legal paralysis. We would be prepared if necessary to accept an increased opposition fee.

As mentioned above, fees should be progressive in time, from first to later stage.

The EPO's efforts in reducing costs and raising the quality of its work is going in the right direction but we would support real changes in structure to improve efficiency.

Do you think that other aspects of the system of fees for the European patent should be changed? Can you see an advantage in, or need for, introducing reduced fees for SMEs, along the lines of existing arrangements in the United States ("small entities fees")?

No. As stated above, we are in favour of low initial fees and higher later stage renewal fees. This would also provide advantages for SMEs (see above, Point 4.5).

If the new cost effective system we propose were introduced, the need to subsidise SMEs would disappear.

5.2.2 The distribution of revenue from renewal fees

On the question of the distribution of revenue from the renewal fees for European patents:

- Do you consider it appropriate that revenue from renewal fees for European patents should be partly used to finance the national patent systems?
- Generally we believe that national patent offices must remain. However they should only be paid for the services provided for patent and innovation related purposes.
- If so, should an objective, non-automatic link be established between the needs voiced by the national systems and the allocation of financial resources, in order to make that allocation more transparent?
- Yes.
- What, in your opinion, are the innovation-related tasks performed at national level that could legitimately be financed via the share-out of revenue from renewal fees for European patents?

This should be established in further discussions.

— As far as the promotion of innovation is concerned, is it not the case that some aspects of the share-out system have adverse effects, particularly where the bulk of the resources is paid straight into the general government budget and is not earmarked for activities directly linked to innovation?

— Yes.

5.2.3 Translations

Do you regard the "package solution" developed by the European Patent Office with a view to reducing translation costs as appropriate and effective? If not, why not? Can you imagine other realistic solutions, bearing in mind that, if they were to be put into effect and to prove effective, they would have to be adopted unanimously or by an overwhelming majority of member States?

The package solution is a step in the right direction for the EPC, but the triple solution we have proposed above could well render the issue moot.

Memorandum by British Retail Consortium

I am pleased to submit some comments on the Green Paper. The British Retail Consortium represents 90 per cent of retailing in the United Kingdom; virtually all major retailers are members.

Retailers are not major users of the patent system. BRC does not wish therefore to respond to all the detailed questions posed by the Green Paper, and which will be addressed by specialists, but wishes to comment on points of particular relevance.

1. The patent system must continue to provide a flexible and cost effective system for all including SMEs and others who do not require Community-wide patent protection. Any Community patent must co-exist with national offices and the EPO.

2. The cost of translations proposed in the 1989 Luxembourg Convention is a major deterrent. Since the Green paper was issued it has been seriously suggested there should be one language, English. We would support this. Alternatively, the EPO solution of English, French and German could be used.

3. Owners of patents are unlikely to be prepared to take the risk of having them found invalid throughout the EU because of litigation brought in a Member State with little experience of patent litigation. The achievement of harmonisation of litigation will require:

1. A central appeal court.
2. Specialist patent courts/judges in Member States.
3. Reduction of delays to reduce uncertainty.

BRC notes that no substantive change to patent law, already harmonised by the EPC, is being proposed. Retailers who stock goods which are the subject of a patent dispute may find its merits difficult to judge. They would not wish to see any changes in:

1. The treatment of secondary infringement as a lesser offence.
2. The threats provisions as a protection for those stocking goods.

25 November 1997

Letter from Michael Burnside

I enclose some personal comments on the questions raised in your letter of 28 July 1997. Some of these comments are not direct answers to questions that you pose as there are submissions on behalf of professional bodies and on behalf of individual companies which deal directly with certain questions in such a way that my own personal view would be of no particular importance. However I have been familiar with the development of the European Patent Office and the proposals for the Community Patent Convention since their earliest beginnings and it is fair comment to say that some of the issues that were discussed with great intensity of feeling in the early 1970s have not been considered for some time. Indeed the last serious consideration of the Community Patent Convention was at the short Diplomatic Conference held in Lisbon at the beginning of May 1992 and there was no very extensive consideration of the issues at that Conference. The original of the Community Patent Convention was signed in 1975. There was extensive discussion at a further conference in Luxembourg in 1985 and the "text" of the CPC that has been generally considered in recent years is that which was effectively established in 1985. Many experienced practitioners have little knowledge of the violent debate that took place in the early 1970s because this is 25 years ago.

When it was announced about a year ago that there was going to be a Green Paper on the Community Patent Regulation I thought that the issues that would be discussed might very much be a repeat of the issues that were discussed in the various attempts to have the CPC adopted but I now note some very significant changes. If one looks back a number of years it was assumed by everyone that translations into all the languages used by the CPC would be necessary and this represented a significant stumbling block when individuals began to work out the cost of having a Community Patent. Equally it was thought that very high

renewal fees would be a difficult hurdle. Looking at some of the submissions made with respect to the Green Paper it does seem that there have been changes in these two important issues in that we may be able to have a Community Patent with one language only for the specification and the cost of renewal fees may not be exorbitantly high. Thus a major stumbling block on the question of costs may be removed if a Regulation is adopted.

One of the problems that was discussed in great length some 20 years ago was that of implied consent. The present state of this problem as regards the European Patent is concerned is that the ECJ has recognised that a failure to file a patent in one Common Market country is not an implied consent to the manufacture of those goods in that country and their circulation throughout the Common Market (i.e. to other countries where patents have been taken out). This used to be the "holes in the basket" problem and the Commission used to "threaten" that if companies did not take out patents throughout the European Union then the end result might be that goods would flow freely from an unpatented country to a patented country. Of course, the form of the Community Patent Regulation has not even been proposed but I am sure it will provide for possible conversion to independent patents at the grant stage. It has to be made clear that any new Regulation does not provide that such an act does not mean there is any implied consent to the manufacture of goods in a country where no patent was taken out.

In the early 1970s there was much discussion on the permissibility of granting an exclusive licence for part of the Common Market. It was generally considered that the Maize Seed case made it clear that the European Court of Justice thought that partial exclusive licensing was possible.

Article 42 of the 1989 version of CPC states that a Community patent may be licensed in whole or in part and that a licence may be exclusive or non-exclusive. It corresponds to Article 43(1) of the original 1975 CPC. It might be thought strange that a CPC should include such an Article as in 1992, it was a statement of the obvious as indeed it is for the patent laws of most countries. However the situation in 1975 was very different and the EC Commission was so disturbed that the Fifth Report on Competition Policy included the following passage:

> "A Community patent may be licensed in whole or in part for the whole or part of the territories in which it is effective. A licence may be exclusive or non-exclusive". Article 43(2) continues: "The rights conferred by the Community patent may be invoked against a licensee who contravenes any restriction in his licence which is covered by paragraph 1."
>
> In the course of the deliberations on the Convention, the Commission stated that the grant of an exclusive licence may fall within the scope of Article 85(3). The Commission was not able to give its approval to Article 43(2).
>
> A clause in a contract prohibiting a licensee from supplying the territory of another licensee may be taken to be within the prohibition in Article 85(1), and qualify for exemption only if the tests of Article 85(3) are satisfied, and then only for a limited period.
>
> The Commission has recently expressed its view in its decision of 2 December 1975, in *AOIP v Beyrard*. It will be for the Court of Justice of the European Communities to resolve this difficulty in the final instance.

It seems now clear that a series of patents granted under the European Patent Convention (that is national patents) can be licensed in an exclusive way for parts of the Common Market.

It should be made clear that in any Community Patent Regulation that a partial exclusive manufacturing licence is possible. Of course there is a significant legal difference in saying that a Community patent may be licensed for part of the Common Market and a contractual agreement where different national patents in the Member States are licensed to different parties. I do not propose to deal in this personal letter with the subject of "exhaustion of rights" at any great length. I am sure that this has been dealt with separately in submissions made on behalf of different organisations. However as the doctrine of exhaustion of rights is not more than 25 years old in Community law some observations may be helpful. In the early cases from the European Court of Justice it was assumed that their decisions dealing with exhaustion of rights in respect of one form of intellectual property would apply equally to other forms of intellectual property. The later cases draw distinctions and it is now very clear that exhaustion of rights with respect to trade marks and patents present different legal problems. The case law of the European Court of Justice makes it clear that "European" law does not recognise international exhaustion as applied to goods entering the Common Market. As discussions of international exhaustion are becoming increasingly common it should be made clear in any Community Patent Regulation that there has been no change in Community law. Of course, if there should be developments within the case law in the next few years that mean that international exhaustion is recognized, this last observation will no longer be true.

3 February 1998

Memorandum by Professor WR Cornish, University of Cambridge

Q.1: *What is the value of patents to UK industry?*

UK industry is widely considered inventive. It may be less good at turning its ideas into successful commercial products. The patent system exists to encourage industry, and its academic and other collaborators, to undertake the tasks of initial research and subsequent development. The UK patent system can only offer them encouragement in its own territory and often the prospect of foreign patents is more important.

It is difficult to show any simple correlation between the patents which UK industry obtains and the profits earned from innovative products. Many other factors are at work. Nonetheless patenting plays a significant role, particularly in three ways:

(i) Patents offer the lucky few a lottery-like chance to make very substantial monopoly profits. This happens when the patented invention replaces all previous alternatives on the market. More frequently a patent gives more limited protection against imitative products and processes which embody the invention. This in its turn can be of considerable value in gaining a market share.

(ii) Patents give a reasonably certain legal basis for the transfer of novel technology to licensees, around which the contractual conditions for an acceptable collaboration can be organized. More and more, enterprises are being valued by reference to their patent and other IP portfolios.

(iii) Patents provide the relevant industry with early information about new developments, and indicate where further information about inventions and associated know-how can be obtained.

The patent system can appear expensive, distracting and hard on those who do not win the research race. However, industry worldwide regards it on balance as a good thing (provided it is kept within cautious confines) and uses it increasingly. It is a useful *tertium quid*, operating between the extremes of looking to government for innovation support and allowing unfettered borrowing of technological information by free-riders.

The value of the patent system in the UK is not just to those British companies who take advantage of it. Patents operate in a given country as a stimulus not to researching there but to marketing there. If there is a valid UK patent, an innovator may provide his product or process to the British user or consumer (albeit at a price) where otherwise he might confine himself to countries where he has adequate protection. It is important to evaluate the patent system with this consumer perspective in mind.

Q.2: *What purposes do the present patent systems in Europe serve for the UK?*

The introduction of the EPO granting procedure in 1978 created machinery for gaining patents which works in competition with the national patent offices. The EPO has been successful in attracting business, and UK enterprises are regular users of its services. From a single application, they may acquire standard-form patents in up to 18 jurisdictions, of which Switzerland is now the only major territory outside the EU. This success has much to do with the convenience of the system for non-EC industry, particularly that of the US and Japan. Successful it may be, but it is much more expensive, in terms of official fees, than the patent systems of those countries, and significantly fewer patents are granted by the EPO.

The national offices continue with reduced business, partly to satisfy small-scale inventors whose expectations are confined to their home markets, and partly as preliminary staging-posts for EPO applications. Their official fees are each lower than in the EPO, but that factor does not make a crucial difference. Most inventors who want coverage in more than one or two European states may well spend less on professional advice if they use the EPO route and may benefit considerably from deferring the costs of translation.

It must be questioned whether there is sufficient justification for continuing the British and other national patent systems after another decade or so. The answer, however, will depend in part on how efficient and fair the European system can become. At present, the EPO system attracts many complaints about its slowness, costliness (despite the recent fee reductions) and legal complexity. The last objection arises from the lack of any judicial hierarchy bringing together the EPO tribunals and the courts of the Member States. This is a fundamental defect which must be remedied in any new deal for European patenting.

Q.3: *What would be the main advantages and disadvantages of patent protection covering the whole Community?*

Within a common market, the major intellectual property rights should be granted for the whole territory on a common legal basis. An industry can then know what innovative ideas it may and may not initiate and build upon. Federations such as the US and Australia, which operate as free trading units, grant patents for the whole country. It ought to be the ultimate aim of the EU to establish a Community patent system under which unitary patents for the entire Union are the only form of this protection.

The UK should share this vision, while recognising that at the moment it looks a long-term prospect and one which can only be reached in stages. Others close to daily practice before patent offices are better placed

than I am to emphasise the need for speed and efficiency in the granting of Community patents. They are also better able to judge which of the solutions to contentious issue of translation costs should be adopted.

I would stress four crucial elements in any future system:

(i) The present requirement of pre-grant examination should remain an essential element of the scheme. Europe should not be smothered in patents of dubious validity. The early history of our system demonstrated how serious their nuisance value can be. There should be no introduction either of deferred examinations or of a "second tier", short-term right (be it a petty patent, a utility model or whatever) at either the EU or the national level, which would allow grant without prior examination. Such rights exist in various forms in other EU states and are proposed for the whole territory as an aid particularly for SMEs. Their chief danger is that they will be used by the sophisticates of industry to obtain grants under the petty patent with wide, but untested, claims. This will screen the invention from imitation until a full patent can be obtained, should that be warranted by commercial success.

(ii) The juridical scheme for the granting of Community patents and the determination of infringement and validity after grant must be brought together in a hierarchy of tribunals. The judicial pyramid should also cover European patents for individual states, so long as they continue to be granted under the present system. The structure must have at its head a court of final appeal with power to settle issues of law in a definitive manner.

Tribunals dealing with patent disputes are difficult to establish in a way which commands respect. The centrality of technological issues requires judgment either by experts in the particular field or persons with considerable experience of technology more generally. Equally, the patent system depends upon an elaborate balance between courts which apply the law on infringement and validity after grant and examiners who handle applications in the light of interpretations of the law. Between them is a symbiotic relationship which requires experience to appreciate.

Accordingly it seems desirable that the ultimate tribunal should be composed of judges who have considerable legal, administrative and (as far as practicable) technical experience of patenting[2]. Since such judges are difficult to find, there may have to be a period in which the tribunal has a pool of part-time members drawn from national judiciaries.[3] That would allow for a degree of experiment, and it would have some of the flexibility associated with chambers of arbitration. In the longer term, however, it must be doubted whether such a body would be cohesive enough to establish an acceptable reputation.

(iii) It should not become part of any Community patent judicature that the determination of patent validity in the post-grant phase should be reserved for an extended Opposition-cum-Revocation Division of the EPO (and the Appeal Boards above that Division) while questions of infringement should be tried in national courts. The German preference for such a division of functions is not universally shared even in that country and has in some degree been modified by case-law there. Apart from delays, the questions raised by novelty and obviousness in the light of the prior art are mirrored by questions of infringement in the light of the patent. It is vital that a single court should be able to consider the parallel issues side-by-side in order to reach a balanced judgment of the merits overall.

(iv) The Community patent should not be introduced on any partial basis which would undermine its unitary effect througout the whole EU territory. Intellectual property rights are a complex and arcane subject for people in industrial, commercial and financial life. If the EU cannot move towards clarification by introducing unified rights and seeking to displace the alternative of patents granted by national offices it should not intervene at all. Territorial divisions within the EC would only make for further complications. This would equally be true if renewal fees could be paid only for certain Member states.

Qs. 4–10: *Would the Luxembourg Convention system be used? What are its weaknesses or defects? Should there be further Community action, including conversion of the CPC into an Article 235 Regulation? What implications would there be for national patents, at the international level and in relation to the EPC?*

If some settlement of the translation issue can be found which does not impose heavy financial obligations on those holding Community patents, there would probably be substantial use of the CPC. This would obviously be greater, if the grant from the EPO were to lead only to a Community Patent; if, in other words, Member States surrendered the option (under CPC Article 81) of receiving national patents in designated Member States from an EPO grant.

[2] This in turn implies that neither the Court of First Instance nor the Full European Court of Justice are suited to hearing patent appeals regularly. The possibility of making the patents appeal court a special chamber of the Court of First Instance should certainly be kept alive.

[3] The proposal of Sir Robin Jacob that national judges should be included among the legal members of the EPO Enlarged Board of Appeal is an attractive short term measure, and one which can be achieved without new legislation. It would also try out the possibility of a mixed panel in advance of more radical changes in the system as a whole.

As to languages, there is an evident case for adopting English as the one language for European patents, at least until litigation is imminent. Equally there seems no way in which the British can press the case for it without inflaming national susceptibilities.

Proceeding thus far, however, would leave the EU in the grip of unsatisfactory half-measures, making it difficult to progress towards the goal of a single, unified patent system for the whole territory. The national systems would remain. Although they offer an alternative to the EPO granting system, it is only on the basis of a skewed competition. This is the result in particular of the division of renewal fees between the EPO and EPC States. Yet this subsidisation is unlikely to disappear as long as the Administrative Council of the European Patent Organisation is constituted in its present form. Under the Luxembourg Convention as it currently stands (Article 20) a similar support system is envisaged through a national EPO division of renewal fees from a Community Patent. This equally is undesirable.

The case for placing the European patent scheme, operated through the EPO, under the EC Treaty through an Article 235 Regulation seems constitutionally justified in the light of the ECJ's decisions in Opinion 1/94 and Case C-350/92 (*Spain v Council*). As the means for altering authority over the future European patent system, and for placing it under an acceptable management structure, such a Regulation seems the only sensible way forward. One consequence would be a simplification in Europe's dealings in patent matters with the rest of the world, whether this consists in the negotiation of treaties at the international level, or the conduct of discussions with major trading countries, such as the US and Japan.

It would, however, be a root-and-branch reform of patenting in the EU, and it should therefore be undertaken only as part of a plan to secure a single, unified Community patent, operating with a properly structured judicial hierarchy. Lesser measures, which do not accept this objective, may as well be tacked into the present patchwork arrangements. While the questions of detailed law raised in the Green Paper (patentability of computer software, employees' inventions law, etc) would be tackled in an orderly way once a new Regulation was in place, further discussion of them does not depend on such a fundamental change. In any case such issues are not of front rank urgency for the system as a whole, and they are mostly contentious. They, like many other things, can be looked at as issues for the harmonisation of national laws, or possibly for revision of the EPC (or both). They should certainly not be allowed to become a distraction to the present essential debate.

A proposal to place the EU patent system entirely in the hands of Community institutions will add substantially to those institutions as a whole. As so often, what seems appropriate at the particular level, is likely to raise large controversies over the political future of the Union in general. In the end a balance has to be struck pragmatically. It has been my purpose to stress the benefits of a unified approach to patenting throughout the European Community. Patents are intended to operate at the heart of productive industry and so are part of the economic lifeblood of that Community. They represent a policy choice, now much affected by the understandings of the world trading system, about how to stimulate inventiveness and investment in innovation. That choice having been made, the operating scheme should be as efficient, cost-effective, and clear to industry as a whole, as can be attained. The present admixture is too complex and legally insecure; and in parts it is slow and expensive. The moment for radical change is now.

Memorandum by Mr T L Johnson of Edward Evans & Co

1. SUMMARY/COMMENTS

(i) It is to be noted and applauded, that entry costs into the European Patent applications under the EPC have been lowered by the EPO, and some have been deferred, (Decision of the Administrative Council, entered into force 1 July 1997).

(ii) It should also be borne in mind that *at present* there are various routes for protecting innovation in Europe:

(a) by National patents, granted by National Patent Offices;

(b) by a European patent, by way of the European Patent Convention (EPC), granted by the European Patent Office (EPO). This procedure provides for a central application procedure which on grant leads to a bundle of National patents. These patents have an identical description and claims of identical scope;

(c) Petty patents or Utility Models, available currently in some Member States, and the subject of a Directive being drafted by the Commission;

(d) the Community Patent Convention (CPC) (Luxembourg Convention), which would provide a single unitary patent throughout the Community. It is not yet in force, for reasons set out clearly in the Green Paper under response, namely the requirement to provide translations of the patent in all languages of the Community, and the risk of revocation, Community-wide, by a National court unskilled in patent law;

(e) I am and always have been an advocate of flexibility in any system connected with intellectual property rights, not least the patent system. Consistent with this view, I am a strong supporter of the need for the continued existence of strong National Patent Offices, to fulfil the needs of single or lone inventors, small business and to cater for the fact that *economically*, it is often the case that industry, whether big or small in economic terms, often requires protection in only certain territories. Indeed, it is my experience in serving the

needs of my clients, who in size extend over the whole spectrum of economic size, that industry seeks protection in particular countries because protection is required in those countries. If a particular country does not have a sound manufacturing base, or if there is no need for a product in a particular country (eg two snow chains for automobiles in Greece) protection will not be sought there for a particular invention. Licensing or technology transfer considerations will not in such a case enter into a business decision of a particular client, saving that the expense of an application will be saved in that country. It is the lack of a commercial need (in a particular country) which results in a failure to patent there, and not the reverse, namely that no patent results in a lack of commercial need (or technology base) in the particular country;

(f) I also advocate, in addition to flexibility in a patent system, the accessibility of such systems to all classes of users, as rapid a grant as possible, and certainly of protection, which in my view would need harmonisation of interpretation of patent law through harmonisation of judicial procedures in Europe;

(g) One way to encourage transfer of technology, and to reduce costs for SME's would be to simplify transfer of IPRs. I would urge on the Commission the benefits to SME's of streamlining procedures on recording transfer of IPR's and elimination of Stamp Duty. The cost and administrative burden thereby removed would enhance the competitiveness and innovative ability of SME's and accordingly would urge the Commission to study easing of these regulations.

2. With the above general comments in mind, I have the following general comments on the Green Paper.

(a) The main topic of the Green Paper is the possible introduction of a Community Patent System. I believe that a Community Patent System with appropriate provisions would be of benefit to certain sectors of industry, provided that its use were not made mandatory within the Community, that it would coexist with the existing National and European patent systems to allow users the maximum of flexibility, particularly SME's, and that it is a truly independent instrument which is not merely an "amended" EPC.

(b) It must first be established what is meant by a Community patent. A Community patent in my view must be granted for the whole Community, give the same protection throughout the whole Community and remain valid over the whole Community. This would rule out proposals in which, for example, an applicant could decide not to bring the patent into force in certain Community States or bring the patent into force later in certain Community States than in others. Further, I am of the view that the existing European and National patent systems (possibly refined and improved) are more appropriate to applicants who do not require protection throughout the whole Community.

(c) Furthermore, I think that there should be maximum flexibility in permitting the transfer of applications and patents between the National and European patent systems, and any future Community patent system.

Thus, if an applicant for a Community patent were to decide that he no longer required protection in all Community States he should have the opportunity of converting the Community patent application to a European patent application, though a time limit for such conversion might be needed, say two or three years from grant. Likewise, if during the prosecution of a Community patent application or even after grant of a Community patent an item of prior art were discovered which affected the validity of the claims in only a part of the Community, so that a unitary Community patent could no longer remain valid, the applicant or patent proprietor should have the right to convert the Community application or Community patent to a European application or bundle of National patents respectively for the remaining states. Similarly, if, as a result of such prior art, it would be possible for claims of differing scopes to be valid in different Community countries, the applicant should have the option of converting the Community application or patent respectively to a European application or bundle of National patents having claims of differing scopes rather than being forced to adopt the narrower claims throughout the Community as would be the case if he chose to maintain the Community application or patent.

In the case of pending applications a similar right of conversion should be provided from the Community Patent System to the National Patent Systems. Ideally, the EPC would be amended to permit conversion from a European patent application to a bundle of National patent applications which would then be prosecuted through National Patent Offices.

(d) The translation problem is one of the main reasons that the Luxembourg Convention has never been brought into force.

Whilst the situation remains that no common language is an official language of the whole Community, I believe that a full translation of the whole text of a granted patent into an official language of each state in which the patent is to be brought into force will remain essential. It is also important that the same translation provisions apply to the European patent system and to a future Community patent system. Thus, in the case of a Community patent, it is essential that the whole text be translated into an official language of each Community Member State.

It is observed for example that the disclosure requirements in the United States are more onerous than elsewhere, resulting in the drafting of specifications which are more detailed than necessary to meet the requirements of other patent systems, and which are therefore more expensive to translate.

It must be remembered that an applicant for a patent is seeking to establish a legal right which will curtail the activities of third parties. I believe that such applicant has an obligation to inform at his own expense all those who will be affected by that right in a language which they can understand. Without a full translation

of the specification, required for interpretation of the claims, this obligation will not be fulfilled. Moreover, just as the applicant must be ultimately responsible for the drafting of this specification and claims, so must he also remain responsible for the preparation of the translations.

(e) As a further cost-saving measure relating to translations, it seems to me that the EPC requirement to provide translations of the granted claims into the other two official languages for incorporation into the printed patent specification should be dropped. These translations of the claims have no legal effect and there is therefore no sanction on an applicant who provides a poor-quality or misleading translation.

(f) The provisions for the legal enforcement and revocation of Community patents have proved to be a further stumbling block to the ratification of the Luxembourg Convention.

I would make a proposal, as follows:

1. National Courts in the Community Member States should be the Courts of first instance, both for infringement and for revocation. These National Courts should however be specialised Courts, skilled in patent law, preferably with Judges with a technical background, as in the UK. Infringement and revocation proceedings should also take place together, where the defendant in an infringement action counterclaims that the patent is invalid. A decision on revocation should apply throughout the whole Community unless the patent proprietor opts at that stage to convert his Community patent to a bundle of National patents (cf "conversion" under the Community Trade Mark Regulation where a prior National right in one Member State permits "conversions" in the others to National trade marks). In order to be broadly acceptable this proposal would require harmonisation of National court procedures. The Plaintiff would have the *prima facie* right to take action in a National court of any country in which infringement has taken place. This would give Plaintiffs a reasonable amount of flexibility in choosing a court of first instance. The Defendant could possibly be given the right to apply to have the case transferred to another court of the same country.

2. The court of second instance would be a Community Patent Appeal Court. This would deal with both infringement and validity issues. It would rapidly establish a body of law which would be binding on the courts of first instance, so tending to harmonisation.

3. The court of final instance or Supreme Court would be the European Court of Justice. It would hear appeals on matters of law only.

4. Patent attorneys should have rights of audience in a Community Patent Appeal Court, and in the European Court of Justice, either alone or accompanied by a lawyer.

5. All courts should be empowered to grant an injunction over the entire Community, take an account of profits over the entire Community and also be empowered to grant damages at a realistic level i.e. at a level sufficient to deter patent infringement.

6. I am strongly of the view that issues of infringement and validity should be heard in the same tribunal. I do not see the need to establish a new Revocation Directorate in the EPO to be the first instance for all revocation actions. Firstly, there is the question of delay. In a high proportion of actions for infringement, the Defendant counterclaims for revocation of the patent. In such a case an action for infringement before one of the National courts would need to be stayed until the question of validity had been settled by the Revocation Division of the EPO and possibly also any appeal from that decision. An EPO opposition and the subsequent appeal often take more than five years and there is no reason to believe that a future Revocation Division could handle matters more quickly. This would impose a wholly unacceptable delay on the determination of actions for infringement.

If on the other hand no infringement is at issue, then revocation could be decided in a National Court, with Community-wide effect.

7. Some users of the system have doubts about the impartiality of EPO appeal boards. The same doubts would apply to any system whereby earlier decisions of the EPO are reviewed internally. There is also a doubt as to whether the EPO (including the Boards of Appeal) are sufficiently versed in assessing evidence. For these reasons, and so that the enforcement and revocation procedures of a future Community patent system should achieve the high reputation that they will require, linked questions of validity and enforcement should be wholly removed from the granting authority. Moreover, any system that would encourage an obviously-highly desirable and relatively rapid unification harmonisation of National court procedures which would lead to harmonisation of jurisprudence in Europe, thus leading to certainty for business of all sizes.

8. I now set out to provide answers to specific questions raised in the Green Paper, reference being made to the specific headings used in the Green Paper, and with the page number of questions appearing in brackets e.g. (6) refers to the questions on page 6.

(i) 3.1 The need for a Community patent (6).

Costs?

The advantage of reduced costs on designation (only one), renewal (only one), and management (only one patent as opposed to a "bundle"). (However, I take the view from my experience that actual administrative or *management* costs do not figure highly in a patentee's budget—and decisions to abandon by failure to reply to an Official Action or by non-renewal are taken on the basis of commercial expediency).

Geographic Coverage?

Patent coverage in the whole EU, which could expand in geographical terms as more countries join the EU, by way of a single patent has advantages and I would favour a unitary patent for this reason, provided it is valid and enforceable throughout the whole EU, and does not lead to the demise of the EPC or National Patent System, which have the advantage of much greater flexibility for industry. Thus a disadvantage of a unitary system is its "monolithic" nature which would impose on a user a protective right over a vast area which it might not need or desire.

The problem of distortion of competition?

Competition being essentially due to commercial activities, the existence of a Community patent would not appear to be of any particular advantage to industry from this standpoint, distortion being determined by the ECJ under the Treaty of Rome. It could also be a disadvantage to have to assign a Community patent for the whole EU, which might not be in the interests of the parties concerned, or the Community.

The free movement of goods?

The principle of exhaustion is well established, by decisions of the ECJ, which has essentially handed down its decisions in cases where there are patent rights in some countries but not in others. Basically, where there is a country with no patent, the market is "open", which leads to competition in the EU. The existence of a Community-wide patent could have the disadvantage of reducing competition, because of the unitary nature of the right. A competitor might not risk infringement.

Legal certainty?

Providing infringement and validity are heard together, in the same court of first instance, and providing there is a Common Appeal Court, then the advantage of legal certainty should follow. Also, as the right would be unitary, and thus transparent for the whole EU, competitors would only need to assess one right, as opposed to "a bundle".

The monitoring of infringements?

There is no particular advantage or disadvantage in having an EU-wide patent. Industry will monitor its own market place, and will do so whether there is an EU-wide patent or a bundle of National patents in existence. In fact, there could be a disadvantage for industry if there was an EU-wide patent, since it might feel compelled to monitor the whole of the territory of the EU, rather than just as now concentrating on its preferred markets, and this could well stretch the resources of any industry. The corollary is that if there is an infringement in a far-flung part of the EU, and no action is taken, then the patentee *might* be estopped from taking action later, if the infringement becomes critical in the preferred territories, owing to the legal concept of acquiescence.

Translation requirements?

The cost of translations under the EPC is one of the main catalysts behind the re-opening of the question of the provision of an EU-wide unitary patent, bearing in mind that the language regime of the CPC is one of the two main reasons for that convention not coming into effect. The problem stems from the not unreasonable desire for a National in a Member State to be able to read a patent document, which is a legal right which might be enforced against him, in his own language. In addition, if technology transfer is to be undertaken, it is not unreasonable that a party to such a transfer should be able to read and understand what the transferred right actually is. An agreement will usually be in the languages of both parties (assuming there are two) so why should not the subject of the agreement, the patent document to be translated too. To that extent, current translation requirements are advantageous.

As long as translation requirements are maintained it is essential that the requirements are the same for the normal European patents covering less than all EU Member States and the Community patent. The reason for this is quite simple, since with the introduction of a Community patent, such unitary patents will exist in the Member States side by side with National patent rights granted by the National Office or in the form of validated European patents. If a different language requirement was to be made for the Community patent, such as translation of the claims only, whereas existing full translation requirements were maintained for European patents, there would in any country be patent rights which were different with respect to the extent of the translation. Would they be given the same validity and scope of protection? Many users of the patent system would feel a severe uncertainty about that, since the claims can only be construed with full knowledge of the description and any drawings.

Essential conditions to be met

Accessibility for all classes of users, rapid and cost-effective application procedures (with a low threshold of cost in filing an application) leading to efficient protection, and a legal certainty in the form of harmonisation of jurisprudence throughout the EU. Also, official fees including renewal fees should be set at a level sufficient to run any new EU-wide system, with no surplus. The Commission could be free to choose an existing Office by tender to run the system or for example to request the EPO to run the new system for a flat fee paid out of official fees. If a surplus *did* accrue, it should be used to reduce official fees.

Current Luxembourg Convention

I would advise my clients of the disadvantages of the Luxembourg Convention so well set out in the Green Paper, which I believe would mean in practice in its non-use—as indeed is the current position as it has not been ratified by all Member States.

Adjustment of the Luxembourg Convention

I support the idea of an EU-wide patent right, provided that it is one of a series of possibilities available to an applicant, e.g. National rights granted Nationally, National rights granted via the EPC, utility model rights granted under National law.

The current EPC does not appear to meet the needs of industry in view of its perceived slowness, and cost of translation on grant. Adjustment of the EPC would appear to be a politically unobtainable goal, so a regulation appears to be the only option.

3.2 *Apparent Weakness of the Luxembourg Convention (8)*

Yes, to the first question. As regards the second, revocation by the EPO is a serious disadvantage if such action "splits" determination of validity and infringement and leads to "stays" of infringement proceedings before National Courts. Moreover, the prohibition on representation of a client before COPAC by a patent attorney introduces delays and uncertainty.

3.3 *Cost of Translation (II)*

- System based on Articles 33 and 88 of the 1975 Luxembourg Convention, or EPO's "package solution".
- neither feasible.
- NO—I favour a truly unitary patent, not an "à la carte" or "Swiss Cheese" patent.

Other Solution

Whilst the situation remains that no common language is an official language of the whole Community, I believe that a full translation of the whole text of a granted patent into an official language of each State in which the patent is to be brought into force will remain essential. It is also important that the same translation provisions apply to the European patent system and to a future Community patent system. Thus, in the case of a Community patent, it is essential that the whole text be translated into an official language of each Community Member State.

If there is in fact a need to reduce translation costs, I would support any solution by which the text would be shortened to remove unnecessary or redundant material prior to grant. If the full potential benefit of the compact solution is to be achieved, harmonisation of the disclosure requirements at an International level will be required. It is observed for example that the disclosure requirements in the United States are more onerous than elsewhere, resulting in the drafting of specifications which are more detailed than necessary to meet the requirements of other patent systems, and which are therefore more expensive to translate.

Centralised filing of translations?

I do not share the view that centralisation of the filing of translations at the EPO is an important aspect. Since certain States require a translation for an EPC, and the whole point of translations is that *Nationals* of a particular State can consult them in their mother tongue, it seems logical that the translation should be filed at the National Patent Office of that State. The *cost* of the actual filing will be immaterial to applicants, *except* that centralised filing could lead to increased administrative costs at the EPO, leading to higher fees, which industry wished to avoid, and so do I. Furthermore, National official fees for storing and displaying translations could be reduced or even abolished in any new system.

3.4 *Judicial arrangements (12)*

exclusive jurisdiction to EPO etc.

For the reasons set out above, revocation nationally should be an option, and I am certainly of the view that determination of infringement and validity should not be split.

—restricting effects of decisions

—I believe that a decision revoking a patent should have EU-wide effect (subject to a sensible Common Appeal Court being set up).

3.5 *Fees (13, 14)*

Revenue from renewal fees to accrue to EPO?

—Yes, if this office grants and maintains a renewal register for EU-wide patents.

Reduction in renewal fees for Community Patent?

Since the Community patent is a single right, it should attract one renewal and this should certainly be much less than the total of renewals of 15 (at present) National patents. Since the EPO already charges an annuity on an EPO *application*, it would not have much difficulty in extending that existing system over the life of a Community-wide patent after grant. The renewal fee should ideally be set at a level which is equivalent to the National fee currently payable to the National Patent Office with the lowest fees.

Partial Waiver?

Since I support a unitary, EU-wide right, I do not think it would be feasible to provide the option of partial non-payment. In any event, this scheme would be to the detriment of industry as it would not be clear where protection existed, and expense would be incurred in finding out.

3.6 *Link between Community Patent and EPC (14)*

I agree with the Green Paper on the need for flexibility in the patent system in Europe. Therefore my answer is "Yes", I do think it necessary to establish links providing for conversion from EU-patent to EP patent and vice-versa, or into National patents after grant. Such links could operate on a simple request, and for National patents, on fulfilling National requirements as to language, representation etc.

3.7 *Other Questions (15)*

I take the view that questions of prior use should be addressed under the Patent Law Treaty, to which hopefully the Community would accede.

4.1 *Further Harmonisation (17)*

Computer programmes etc.

I hold the view that all inventions should be judged on the "classic" criteria i.e. novelty, obviousness and industrial applicability. If these criteria are met, patent grant should follow. In answer to the question:

— Yes, existing differences are liable to create barriers to trade or distort competition.

— Yes, European firms may be precluded from the US market because of an existing US patent, while a US firm is not precluded from Europe, because no patent protection is available to European firms.

— Yes, harmonisation is required.

Yes

— copyright law and patent law are and should be mutually exclusive. Programs may only be protectable by copyright as they may not meet the criteria for patentability.

— In any event, I agree that EPO Examiners' guidelines should be amended, to make it clearer that software related inventions are not automatically precluded from protection.

4.3 *Employee's Inventions (18)*

In my experience there are not so many disputes between patentees and employees. It is my view that while any harmonisation in this area is likely to seek to provide employee protection, employers' and employees' federations are the best bodies to comment on this question.

4.4 *Formalities, patent agents etc (20)*

Harmonisation of formalities should in my view be left to the harmonisation discussions under the PLT being chaired by WIPO.

With regard to patent attorneys, etc. notwithstanding any freedom of movement of patent attorney's services across borders, the requirement of an address for service in the different countries is still a necessity since National Patent Offices and Courts need a local address to serve papers in order to start the running of terms. This does not in itself preclude anyone from sending statements or documents in the language of the procedure directly to the Patent Offices or Courts or to make payments directly.

As far as the patent attorney's profession is established by law in a given country, Directive 77/249 EEC for the freedom of services of lawyers should apply also to the services of patent attorneys of other countries in which such a profession is likewise established and to the extent to which the two professions are comparable.

However, in countries having no such profession established, the freedom of services would not be restricted. The freedom of services is restricted according to Art. 60 Rome Treaty to only occasional or passing services and does not extend to the regular provision of services into a given country. Such a service—regular legal advice in the law of another country or similar actions—needs national qualification through an adaption period or an aptitude test.

As a side-note, it should be said that the EPO examination unfortunately does not contain the full legal breadth of National patent attorneys qualification (not even in patent law far less in general law applicable to patents) and thus would not suffice for the application of freedom of services under Directive 77/249 EEC since EPO representatives cannot generally be equated to qualified National patent attorneys (see later more substantive reasoning). It is, however, to be desired that in Community patent infringement and revocation procedures the qualified european representative as also qualifed National patent attorneys should be allowed to represent patentees and defendants provided that his qualification is supplemented by an examination of the pertinent material and procedural law. As far as such a Court (first instance) is however subject to National rules, only those patent attorneys could represent who have acquired the respective National qualifications in countries where a qualified profession is established—likewise without restriction due to nationality or domicile.

The wish to have "a single representative, domiciled in one Member State, acting for his client vis-à-vis the Patent Offices of other Member States" can in fact only become reality without restrictions for those Member States in which everyone can call himself patent agent or patent attorney without any qualification and without any licence to represent thirds professionally before Patent Offices and Courts. In the other countries where the profession has a high National qualification and is regulated, the profession of patent attorney has to be treated as a legal profession akin to lawyers. There are twelve such countries, and the respective titles are:

Austria	Patentanwalt
Belgium	Mandataire Agréé/Erkend Gemachtigde
Finland	Patenttiasiamies
France	Conseil en brevets d'invention
Germany	Patentanwalt
Great Britain	Patent Attorneys
Ireland	Patent Agent
Italy	Consulente in Propriété Industriale
Luxembourg	Conseil en Propriété Industrielle
Netherlands	Octrooigemachtigde
Portugal	Consultore em Propriedade Industrial
Spain	Agente de la Proprieded Industrial

4.4.3 *Professional Qualifications*

I have no information that the aptitude tests as laid down by the Diploma Recognition Directive 89/48/EEC in the above mentioned countries is in practice not meeting these requirements or that those examinations are not in accordance with the Gebhard case (ECJ 30 November, 1995 C-55/94 [1995]).

As concerns the European Qualifying Examination, this does not fulfil the necessary requirements in the mentioned countries although it leads to a certain reduction of the fields of national examinations. First of all, the European Qualifying Examination does not cover all fields of industrial property like designs, utility models, trade and service marks, copyright (especially software and databank protection), plant variety rights, parts of unfair competition law etc. It also does not cover all parts of general laws applicable to patents

or different typical activities with patents like sales and licensing of patents, contract law, law on pledges and security, patents in bankruptcy, rights and contests of inventorship, national and EC cartel laws and for procedures: nullity, compulsory licences, infringement procedures, court expertise, declaratory action, disentitlement to a patent etc.

A good and therefore much higher qualification as provided for by the European Qualifying Examination is needed for the protection of consumers (not only applicants but everyone whose interests are touched by the patent system). In view of the Community's constant pledge for higher qualifications of people and continuing education, it cannot be an aim to lower the existing high national qualifications of professionals in the field of patents but everyone fulfilling the basic requirements should be given the opportunity to acquire such high qualification so as to be able to give full and really competent advice in all patent matters, not merely in how to apply for a patent or achieve grant.

Answers of Questions

There is no need to cover the use of patent attorneys in any instrument except to acknowledge that patent attorneys in the regulated countries would be treated akin to lawyers. The existing Diploma Recognition Directive 89/48 EEC and the Articles of the Rome Treaty, amplified by the use of the Service Directive for Lawyers 77/249 EEC, would suffice. Mere European representatives without an enhanced qualification cannot be treated as equal. Domicile should not be required. Countries should be free to require a mere address for service to facilitate official communications.

If felt necessary to cover the above points, a recommendation would suffice.

4.5 *Additional Measure (21)*

I believe that SME's would benefit from a reduction in fees akin to the "small entity status" fees reduction available to applicants in the USA and Canada. Such a scheme would need to be tuned to European requirements, so the principle, not the form of the US and Canadian schemes is supported. Otherwise, the proposals I have made previously, "low entry" fees, quickness, efficiency of attainment and enforcement of protection, harmonisation of formalities and transparency should all benefit industry, particularly SME's.

As regards legal costs insurance, this is for business to decide—the premiums are an added burden (one small company of which I am aware pays £14,500 pa in premiums) and the underwriting of litigation by the insurer can be problematic.

There are schemes in existence in Europe now. I do not feel that additional harmonisation need be taken at the Community level—industry and the insurance industry will find their own "level".

5.1 *The European Patent (21)*

Current structure of the EPO does not entail disadvantages for users ...?

It is stated in paragraph 2 of 5.1 that fees' reduction has been settled. I would hope that the recent fee reduction at the EPO would be a step on the way to further reductions—for example abolishing designation fees altogether—rather than be a final definitive reduction.

In answer to the question, to obtaining Community-wide protection, a user has to pay 15 designation fees and establish the granted patent 15 times. Before that, he has to translate the claims into the other two official languages, which seems gratuitous as such translations have no legal effect.

I do not share the view that the current structure does not entail disadvantages for users.

Any disadvantages relating to Community law should be addressed by Community measures.

5.2 *Fees (22)*

Designation fees, excess claims fees, opposition fees, appeal fees.

Yes, see above—I would support the introduciton of a "small entity fee" for SME's.

5.2.2 *Distribution of Revenue from Renewal Fees (23)*

Yes, revenue from renewal fees should be partly used to finance National patent systems.

Yes.

Provision of information, data bases, National protection for those users who only require that, national registers.

Yes—I am firmly of the view that fees received by National offices from European renewals should be "ring-fenced" for the National Patent Offices and should not go to the general exchequer of the country concerned.

5.2.3 *Translations (24)*

I have advocated a reduction in the cost of translations.

In conclusion, I would advocate the setting up of a true Community-wide system, having the features set out above, and which is not a "cobbling together" of the current EPC and National systems. Such a system would for credibility be a separate instrument, though EPC and National systems should continue to exist independently (even if the EPO is the actual body charged with granting of an EU-wide instrument).

Also, the present arrangements for obtaining patent protection in the Community (by the National and the EPC routes) are extremely flexible. They enable European businesses, including SME's to obtain protection where it is wanted without incurring anything approaching the level of expense required to obtain a Community patent as envisaged in the 1989 Convention and without currently a serious risk of extension of the exhaustion doctrine as developed by the ECJ to the "gap in the protection" situation.

A Community patent as envisaged by the 1989 Convention, and probably any realistically available Community patent, is beyond the needs and the reach of SME's and its introduction would, it is submitted, be likely further to erode the protection they need and can afford.

The ECJ has so far looked for real consent in applying the exhaustion doctrine. Implied consent (e.g. omitting to obtain corresponding protection in the Community State from which the infringing goods are imported) has not so far been equated with such real consent by the ECJ; an illustration is the EJ case of Keurkoop v. Nancy Keen Gifts case reported e.g. at 1983 FSR 381. Introduction of a Community patent should not change the present exhaustion doctrine requiring real consent.

The introduction of any Community patent must not undermine either of the existing patent systems in the Community. If it were introduced, the ECJ needs explicit instruction not to apply exhaustion in the present heavy handed manner to implied consent situations e.g. where a patentee leaves a gap in his protection or allows his protection in any Community country to lapse.

29 October 1997

Memorandum by the IP Bar Association

The IP Bar Association

1. This is an association of barristers practising wholly or predominantly in the field of intellectual property law in the United Kingdom. The barristers, both Queen's Counsel and Juniors, appear frequently before the Patents Court in London and in the appellate courts but also have extensive practices before the European Patent Office, particularly before the Boards of Appeal.

2. The barristers are engaged by solicitors or patent attorneys on a case by case basis to represent many different clients ranging from international companies through to individual patentees. These observations have been prepared after consultation with members of the association. We answer at the end (Paragraphs 39 et seq) the specific questions posed by the Sub-Committee but trust it will be helpful first to outline our thoughts and concerns in general terms.

The needs of Patent Users

3. As a result of our involvement in patent litigation both on a national basis and before the European Patent Office, we are entirely in agreement with the introduction to the Green Paper which identifies accurately the needs of patent users. The primary need is for certainty at the earliest possible date. Properly used, the patent system encourages innovation and rewards both innovators and distorts competition only to the extent necessary to achieve this aim.

4. If however the system is allowed to develop so as to introduce unnecessary delays or uncertainties, the system can restrain the proper development both of technology and of competition. There are numerous examples of companies properly benefiting from the exploitation of an invention. Equally there are examples of companies that have failed because they have been served badly by the patent system either by being refused the grant of a patent for a good invention or by being the subject of an injunction in respect of a patent which subsequently proves to be invalid or even by continued uncertainty as to the validity of a patent over many years.

5. *One of the primary objectives of any patent system must therefore be to achieve certainty*

6. Equally we agree whole-heartedly with the observations in the Introduction to the Green Paper that the patent system must not be bedevilled with political considerations.

The focus of these observations

7. As practising barristers we are not involved in the day to day prosecution of patents to grant nor are we familiar with the fee structure of the European Patent Office. We therefore do not propose to comment on those aspects of the Green Paper. There are two aspects upon which we have extensive experience

(a) Litigation of granted patents.

(b) Opposition to patents granted by the European Patent Office in the European Patent Office and appeals therefrom.

Litigation of patents granted under the European Patent Convention

8. At present, under the European Patent Convention, a bundle of national patents is granted and thereafter (subject to the opposition procedure before the EPO) litigation is carried out on a national scale. Plainly this has considerable disadvantages both as regards cost and uncertainty due to inconsistencies. Attempts have been made (particularly by the Dutch court through the Kort Geding procedure) to achieve a measure of pan-european relief but we think it is fair to say that this has caused even more uncertainties.

9. There is therefore a pressing need for litigation on a pan-european scale to be introduced. By this route a granted patent would be susceptible to litigation in one forum which could act with speed and achieve certainty.

10. The ambit of patent protection is fundamental. The first task of any adviser (and of any court in litigation) is to construe the claims of the patent in question to ascertain the ambit of the monopoly. Once this is done the question of whether or not a product infringes can be determined as can the issue of validity in the light of the prior art.

11. As matters stand, as a result of a diplomatic compromise, the scope of any claim in a European Patent is to be determined in accordance with Article 69 of the European Patent Convention and the protocol thereto. The combined result of these two provisions is that the claim must be interpreted in the light of the description and any drawings of the specification and is not to be interpreted literally but purposively so as to achieve a fair balance between legitimate production of the patentee and reasonable certainty for third parties.

12: Whilst these provisions remain in force, interpretation of a patent must have a subjective element which is unfortunate and can only be reached once the entire specification has been read.

13. We shall revert to Article 69 and the protocol when considering the question of translations below but for present purposes this consideration highlights the necessity of having a single court which deals both with infringement and with validity. In order to achieve certainty it is essential that all courts must adopt the same construction. Many of uncertainties that arise at present are due to the fact that courts in different countries do interpret the claims differently.

The proposals in the Green Paper on litigation

14. The fundamental proposal of the Green Paper is that questions of infringement, wherever they are to be decided, should await a decision on validity. Validity decisions should be made by a pan-european court and it is suggested that the pan-european court should be an extension of the European Patent Office.

15. *Two Points:*

(a) First, we believe that it is wholly undesirable that questions of infringement and validity should be decided by separate courts

(b) Secondly, we believe that the European Patent Office is an entirely inappropriate organ to be the final arbitrator on validity.

We shall deal with each of these points in turn.

Validity and infringement be tried together

16. As indicated above both aspects require the claim to be construed. Once the claim has been construed then the questions of validity and infringement can generally be decided relatively easily. Often there is a squeeze between infringement and validity in that a patentee will contend for a wide construction of the claim so as to render the alleged infringing product an infringement but will wish to have a narrow construction of the claim when seeking to distinguish a particular piece of prior art. Having a different court determine the issues of validity and infringement increases the scope for abuses of this nature. In contrast, having the same Court determine both these issues restricts the possibility of such abuse.

17. Equally, if infringement proceedings are to be stayed pending determination of validity, this unnecessarily prolongs the uncertainty. Even after the validity court has reached a conclusion (assuming it is a conclusion of validity) there will still have to be proceedings before the infringement court in order to determine the question of infringement. We understand it is envisaged that both courts would have an appellate procedure so that the question of validity will be appealed (apparently to a third tier court) and thereafter infringement will be debated before an equal number of tribunals. This can only introduce wholly unacceptable delay and uncertainty.

18. Experience before the German courts where validity and infringement has historically been determined separately has led, as we understand it, to the infringement courts taking a view on validity at an early stage

in order to minimise uncertainty. We can only envisage that if there were to be a separate validity determining tribunal, the infringement courts would have to take a view on validity on an interlocutory application in order to minimise uncertainty and achieve justice. This is wholly undesirable.

19. Our experience therefore leads us to recommend very strongly that whatever is established, it should be a pan-european court with the power to determine both validity and infringement. By this route there will be only one series of appeals and certainty on an individual case will be achieved without delay. It will also have the advantage that over a period of time the attitude of the court to questions of construction, infringement and validity will become plain so that practitioners will be able to advise their clients with a greater degree of certainty and hopefully thereby avoid excessive litigation.

The European Patent Office as a validity determining Tribunal

20. We have read with considerable surprise the comments in paragraph 5.1 of the Green Paper concerning the perceived effectiveness of the European Patent Office. The European Patent Office has not in our experience proved itself to be effective in achieving speed or certainty. Individual cases can be cited to show the way in which the administration of the European Patent Office has served to delay the grant of patents or the determination of oppositions to grant and has granted patents which are manifestly invalid and have thereafter been found invalid by National Courts. The primary complaint however is over delay. A secondary complaint relates to problems over fact finding.

21. As to delay, these observations do not comment on the delays prior to grant since our experience is not such that we can do this. It must be in the interests of the industrial community that patents are properly examined before grant and this must necessarily take time. It does however seem to us that the present delays between application and grant (around five years) are far longer than is necessary to achieve this aim.

22. Our primary involvement in the European Patent Office is in the opposition procedure. Within nine months of grant, an opposition can be lodged in the European Patent Office which, if successful, results in the revocation of the patent in all national states. In simple terms an opposition now takes less than two and often three or four years. There is an absolute right of appeal to the Technical Boards of Appeal and this procedure takes at least two further years and often four or more. There is thus a period *after grant* of at least five years and sometimes as much as 10 years during which the validity of the patent is in doubt. Accordingly for at least half the life of the patent the development of technology and industrial production has to be carried on under a guise of uncertainty. This is wholly unacceptable.

23. So far as concerns fact finding, the European Patent Office does not have the mechanism to act as a fact finding tribunal. This is particularly important where the validity of a patent is put in issue on the ground of prior-use which can occur on a worldwide basis. Complex assertions as to dates places and events can, and frequently do, arise. The European Patent Office has not been able to grapple adequately with this aspect of the law.

24. We accept that some of the difficulties faced by the European Patent Office are difficulties of language in that there must be delays attendant upon obtaining the necessary transalations but we do not believe that this is in any way a contributory factor to a very large proportion of the inefficiency and delay.

25. The stark truth is that the European Patent Office is failing to serve the needs of the patent community by not reaching consistent and respected decisions in a short period of time. Any suggestion that the European Patent Office as presently constituted should have any responsibility for determining finally the validity of a pan-european patent must be regarded with the utmost concern. We cannot emphasise forcefully enough our grave concern at the suggestion made in the Green Paper that this body should be entrusted with this responsibility.

The Way Forward

26. We would strongly support the establishment of a pan-european Patents Court staffed by Judges with experience both in the field of patent litigation and with a technical background either in a judicial capacity or as practitioners. This court should adjudicate both upon the validity and infringement of a pan-european patent. There must be provision for appeal from this body and again we would urge that if the appeal board is to be part of the Court of First Instance of the ECJ, provision is made for the co-opting of some of the respected judges of or practitioners in the national Courts of the EC who have extensive experience of patent work.

27. Plainly it is a matter of importance both to Patentees (whether they be members of the community or international organisations from outside) and to infringers (whether their base be in one of the member states or whether they are manufacturers abroad who are importing into the community) that the court is able to determine a dispute in a convenient forum. This may well require that the court does not have a single location and that Judges of particular nationalities should be entitled to sit in cases where the interests of the case so demand. These are matters of form which can be dealt with. What is vital is to ensure that a single respected court is established.

THE PROBLEM OF TRANSLATIONS

28. This is a fundamental political problem. Where, as at present, there is a requirement that in order to construe the claims of the patent regard should be had to the description and drawings and thereafter a subjective conclusion be reached as to the correct balance between fair protection to the patentee and reasonable certainty to the third parties, it is necessary for anybody advising a client to have access to an authoritative translation of the whole specification in a given language. Without this certainty cannot be achieved and inherent in translation is a degree of uncertainty anyway.

29. Whilst writing these observations, we have considered Professor Dr Joseph Straus' publication entitled "The Present State of the Patent System in the European Union". We have great sympathy with the views expressed in that document concerning the need to reduce the amount and cost of translations but do not believe that requiring a translation only of the abstract of an invention and leaving all matters of translation to be determined only when a dispute arises is an acceptable solution.

30. Merely having a translation of the abstract cannot give a full flavour of the description and must lead to uncertainty as to whether the abstract is a fair synthesis of invention. Equally any interested rival of the patentee must obtain a full translation before deciding a course of action and it is inherently likely that that translation will not coincide with any subsequent official translation obtained by the patentee and again uncertainty will result. Further the scope for dispute as to an accurate translation once the Patentee is aware of the alleged infringement is obvious.

31. We have considered extensively whether there is a rational route forward which can accommodate a multilingual patent system and yet achieve a fair degree of certainty. We have concluded that there is not and that the political aspect of translations must be faced up to.

32. If there is to be a successful European Patent System which enjoys the respect of its users and is not an impediment on the proper development both of innovation and competition, this can only be achieved if the system operates in a minimum number of languages, preferably one. Certainly the EPO system of having only three languages is a step in the right direction.

33. We appreciate this is a political problem but believe it must be faced. If there is another diplomatic compromise the system will not succeed.

With these observations, we turn to answer the questions posed in the Green Paper so far as we believe this organisation has the experience to do so.

RESPONSES TO THE QUESTIONS ASKED IN THE GREEN PAPER

34. *Paragraph 3.1*

(i) We are wholly in favour of patent protection covering the entire community which, if properly implemented, must give greater legal certainty and avoid distortion of competition.

(ii) If such a system is to function effectively, it must both grant patents and resolve conflicts on infringement and validity speedily. This cannot be done by separating the forum in which validity and infringement is determined and is going considerably to be impaired unless the question of translations is faced up to.

(iii) We would be greatly in favour of the Community Patent coming into effect subject to the concerns expressed above.

35. *Paragraph 3.2*

It will be apparent from our comments above that we do regard translational difficulties as being a weakness of the system and that the current arrangements for considering the validity of the grant of patents at the EPO and for resolving questions of infringement in individual national courts are not acceptable.

36. *Paragraph 3.3*

We have dealt above with the question of translations. The matters canvassed in the Green Paper and indeed those considered by Professor Straus in his paper are considering possible ways of reducing the cost burden of translations. For the reasons given above we do not believe that there is a simple route to obtaining a fair balance between the cost of translations and the necessary degree of certainty where different unauthorised translations may be available. We urge that the questions of translation be considered afresh to see whether the political desire for a system working in a multiplicity of languages is indeed paramount.

37. *Paragraph 3.4*

(i) We are opposed to the European Patent Office having extended powers with regard to revocation. It has not proved itself sufficiently competent in carrying out its present responsibilities to justify

giving it any further responsibility. In our view this would lead to the Community Patent being brought into disrepute.

(ii) We are against the Court of First Instance of the European communities being the first Court of Appeal unless there is provision for co-opting Judges with patent experience. Experience has shown that the presence of Judges experienced both in the law and in technology is a benefit to the patent using community.

(iii) We are against the national courts having any national jurisdiction. If there is to be a Community Patent, it should be a community wide patent with a single court for determining both infringement and validity so that consistency and hence certainty can be achieved.

38. *Paragraph 5.1*

Our views on the current structure of the European Patent Office have been set out above. We regret that we do not find it a satisfactory tribunal.

RESPONSE TO THE QUESTIONS SPECIFICALLY ASKED IN THE COMMITTEE'S LETTER OF 28 JULY 1997

39. What is the value of patents to UK industry?—The general comments in the Green Paper are accepted.

40. What purposes do the present patent systems in Europe serve for the United Kingdom? At present it is possible to obtain a basket full of national patents by a single application lodged in Munich or by virtue of individual applications at the national Patent Offices. Once granted these patents have effect as national patents are enforced nationally. Plainly, in any international business, this leads to duplication of effort in the individual national courts and can lead to inconsistent decisions. Whilst therefore it is a benefit to industry to have available the opportunity of obtaining protection in a limited number of countries, the disadvantages are readily apparent.

41. What would be the main advantages and disadvantages of patent protection covering the whole Community?—the advantages of obtaining protection on a community wide basis by a single application providing just one patent which is enforceable (or revocable) in one set of proceedings, hardly need stating. However we believe that such advantages will be lost if validity and infringement are not determined in the same court. Regard must also be had to expense, particularly to small and medium sized enterprises who are not interested in community wide trade. We would therefore be in favour of retaining the present system in parallel with any Community Patent for a period of time in order to be satisfied that the Community Patent was meeting all the commercial needs.

42. Would the community patent system as devised in the Luxembourg Convention be used?—Whether such a system would be used would depend very much on cost and in the perceived efficacy of the court(s) responsible for determining validity and infringement.

43. What are the weaknesses or defects of the Luxembourg Convention? Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements)? Our views on these issues are expressed in detail above.

44. Is there a case for further action at community level? We presume this is a reference to utility models or second tier patents. This is discussed at pages 21–22 of the Green Paper. The assertion that such a system is "well suited to the needs of many SME's" ignores the question; who uses utility models? Such evidence as we have suggests it is the big companies who find such rights useful and there is a considerable fear that the introduction of a "soft option" patent would help big businesses much more than SME's and that such a right could be a further instrument of oppression and hence an inhibition on innovation and research. We are not in favour of second tier protection.

45. Should the Luxembourg Convention be turned into a legal instrument covered by the EC treaty? The use of a Convention to introduce a Community Patent has so far been proved by events to be extremely slow as compared with the use of a Council Regulation under Article 235 and, (as The Green Paper points out at pages 3–4) will lead to greater difficulties as the Community is enlarged. A Regulation would also have the advantage of flexibility if changes needed to be made as an amending Regulation can generally be adopted more quickly than an amendment to a Convention. However we accept that the establishment of a special European Patents Court could not be achieved by a Regulation. We would therefore advocate a middle route, using a Regulation for the substantive law and procedure and a Convention to establish the necessary judicial arrangements.

46. What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable? Harmonisation can best be introduced through uniformity of judicial decisions across the EU. For the reasons given above, we believe this can only be obtained by ensuring that there is a single court responsible for considering questions of validity and infringement together. Equally this will ensure procedural harmonisation which should limit the cost and expense of proceedings.

47. What should be the relationship between any Community instrument and European Patent Convention? We believe that some kind of linkage between the EPC and the Community Patent is desirable,

possibly along the lines discussed in paragraph 3.6 of the Green Paper. A similar link is already under discussion as between the Community Trade Mark and the Madrid Protocol and reference to this may be of some assistance.

31 October 1997

Memorandum by Intellectual Property Lawyers Association

What is the value of patents to UK industry?

Patents are not only of considerable value, but are extremely important, to UK industry (especially higher-tech based industry such as pharmaceuticals and biotechnology). Patent systems have existed for well over a century in most industrialised countries. The availability of patents encourages innovation and disclosure of innovation. The absence of a satisfactory patent system would mean seriously inadequate protection for innovation and would be a disincentive to innovate and for investment in technology-based industry (whether from the UK or abroad). With the prospect of vigorous competition from the emerging, and lower wage, economies, it is as important as ever for the UK (like the rest of Europe), to have a patent system that is effective in encouraging and protecting innovation.

For a patent system to be effective, a balance has to be struck between strong protection for real innovation (i.e. a proper contribution to the state of technical knowledge), and the refusal or revocation of patents whose subject matter is not innovative and which would otherwise unfairly stifle competition. For this reason, we as lawyers operating in post-grant contentious matters, strongly advocate the system where both infringement and validity are addressed in the same proceedings, and not bifurcated. Similarly, any Court system which may reasonably be said to be disposed in favour of, or against, patentees is not best serving the interests of industry as a whole.

What purposes do the present patent systems in Europe serve for the United Kingdom?

The present systems provide users with two alternatives for securing national patents in various countries in Europe—a basket of national patents by single application filed at the EPO or national filings in each national Patent Office. The number of countries in which protection is sought can be tailored to the nature of the industry and the pocket of the applicant. The EPC system can offer costs savings over separate national filings when patent protection is sought for several European countries. It also provides an opportunity for parties to oppose the grant of patents, if the opposition is launched within nine months of grant. Opposition proceedings in the EPO have been the subject of severe criticism, largely on the grounds of the lengthy delays.

When it comes to enforcement, presently parties have to choose in which country or countries to litigate these national rights. The United Kingdom is one such country, and is at present one of the jurisdictions of choice in which to litigate patents in Europe. In a pan-European dispute, companies are faced with the prospect of litigating the same or substantially the same issues over again in different member states (although there is presently disagreement between the Courts of different states as to the extent to which they can, if at all, grant injunctions and other relief in respect of infringement occurring in other member states).

What would be the main advantages and disadvantages of protection conferring the whole community?

The main advantages of unitary protection on a Community wide basis by a single patent would be that a party would not have to face the prospect of relitigating the same, or substantially the same, issues repeatedly to achieve pan-European enforcement or revocation. However, given the proposals in the Green Paper, we cannot emphasise too strongly our belief that infringement and validity must be determined by the same court at the same time.

A Community system alone may not however suit every user, at least in the short term. The present system will therefore have to be retained in parallel with the proposed Community system, at least for a period.

Would the Community patent system as devised in the Luxembourg Convention be used?

We do not believe that such a system would be used, especially given the costs of translation. Few users of the patent system in fact need protection in every single country in Europe, and a Community system, whilst clearly desirable, must recognise this in striking a balance as to cost if it is to attract business away from those based on securing national rights.

What are the weaknesses and defects of the Luxembourg Convention. Are the main/only problems those described in the Green Paper (translation costs and judicial arrangements?)

We consider the main weakness of the Luxembourg Convention to be that of cost, attributable to the translation issue. There is also concern about the so-called judicial arrangements in enforcement proceedings. We consider such concerns may be exaggerated given the check of a Community Patents Court of Appeal—

in fact in practice the less sophisticated local jurisdictions are likely, in our experience, to be more favourable to the plaintiff patentee on the question of validity than are those that are less impressed by the mere fact that a patent has been prosecuted to grant.

The proposal for a revocation division of the EPO contained in the Luxembourg Convention should be seriously reconsidered in the light of experience gained in recent years. We are against the proposal. There are other points of detail (such as the prohibition on putting validity in issue in an action for a declaration of non-infringement—Art 15(4)) that could also usefully be re-examined.

Is there a case for further action at Community level?

There is a case for further action as presently a party to a pan-European dispute is faced with the prospect of the same or substantially the same issues having to be relitigated in different member states to achieve enforcement of patent rights, or their revocation. Attempting to achieve unitary protection by convention has not been successful (see next answer).

Should the Luxembourg Convention be turned into a legal instrument covered by the EEC Treaty?

The attempt to use a Convention to introduce the Community Patent has failed. The EC Treaty has in contrast enabled the Community Trade Mark to be established. The use of the EC Treaty also permits flexibility, as already seen with the Community Trade Mark Regulation. We consider that it ought to be possible to establish a special European Patents Court or Courts (if really necessary, given for example the precedent of the Community Trade Mark and the use of the European Court of Justice and the Court of First Instance) in the context of EC Treaty modification—events of recent years show that the Treaty is, after all, not written in stone.

The Luxembourg Convention should not be turned into a legal instrument in its present form. It requires modification in the light of experience gained in recent years. For instance, the proposed role of the EPO in revocation proceedings should be seriously reconsidered.

What are the implications for the development of patent laws and policy at the national and wider international level? Is further harmonisation desirable, necessary, inevitable?

We are sorry but it is not clear to what this question is directed, given that the Sub-Committee apparently does not propose to look in detail at the matters contained in part 4 of the Green Paper. Part 4 does raise a number of issues of considerable importance to UK industry and we would be happy to give our views on these should the Sub-Committee decide to look at this aspect in more detail. In the meantime we attach a copy of our recent submissions to the European Committee on the Green Paper (Not printed).

Further harmonisation in both substantive patent law (such as in relation to "special defences" to infringement, and available relief) and procedure (where we strongly advocate cross-examination) would at least be desirable, and may be necessary, if a truly effective unitary patent system is to be achieved.

What should be the relationship between any Community instruments and the European Patent Convention?

Some degree of linkage between national systems, the EPC and the Community Patent will be essential for so long as there are national rights which could conflict with the Community right in certain countries only and hence prevent a Community right being obtained. In those cases there will be a need to convert into an application, either via the EPO or nationally, which can produce patents having national effect in the other countries not affected by the conflict. The discussion in the Green Paper at 3.6 applies to applications only. Consideration ought also to be given to the situation with granted Community Patents and conflicting national applications.

Depending on the precise form of the Community system, an option to convert a Community patent into separate national patents in a limited number of states may give rise to a cost advantage to a patentee. The detail of the inter-relation between a regulation and the EPC (where three signatories are not member states of the EU) will of course have to be worked out.

14 November 1997

Letter from The Law Society

1. THE VALUE OF PATENTS TO UK INDUSTRY

1.1 Patents are of fundamental importance to some industries, such as the pharmaceutical, but are probably of limited importance to others such as the public utilities. In general terms, the patent system encourages investment in research and the development of improved technologies, which, in return for a 20-year monopoly, are disclosed to the public on publication of the patent specifications describing them.

1.2 In the case of the UK pharmaceutical industry, its success over the past 50 years can be related closely to the patented products discovered, developed and then sold by it, for example:

(a) Beecham Group's development of semi-synthetic penicillin derivatives, most notably ampicillin and amoxycillin;

(b) The cephalosporins were first discovered in the 1950s by scientists at Oxford University, patented by the National Research Development Corporation and licensed to Glaxo. Glaxo's success with these and later patented products, most recently Zantac (ranitidine), led to Glaxo's having become one of the most successful pharmaceutical companies in the world;

(c) Fisons' Intal (sodium cromoglycate)—the later demise of the company on expiry of its patents was probably due to its failure to discover any significant successor products.

1.3 Obviously, during a pharmaceutical company's 20-year patent monopoly period, it is able to sell the patented pharmaceutical at a premium price. The proceeds of sale are used:

(a) to finance research and development;

(b) to fund clinical trials and maintain an extensive sales force to inform doctors about the pharmaceutical;

(c) to expand the business; and

(d) to provide a return to shareholders.

Once the patent on a major pharmaceutical product expires, so called "generic" (i.e. non-branded) equivalents come onto the market. Since the product is *ex hypothesi* of recognised importance by the time the patent expires, the generic supplier (who has no need to spend money on (a) or (b) above) can afford to sell at a fraction of the patentee's prices. The patentee must then either follow suit (thereby losing profitability) or maintain his prices (thereby rapidly losing market share).

1.4 For a small to medium size enterprise (SME), a patent can be of great importance in enabling a company to grow rapidly and secure a substantial market share. For example, the revolutionary construction of the Dyson vacuum cleaner (protected by patents) has enabled its manufacturer to secure over 50 per cent of the UK market in some four years.

2. Purposes served for the UK by the present patent systems in Europe

2.1 The common feature of the present systems is that an inventor ends up with one or more national patents. The effect of each national patent is the same, irrespective of the system under which the patent was granted.

2.2 Currently, an inventor can choose between three systems:

(a) Filing a patent application at any one or more of the national patent offices (the national route).

(b) Filing a single patent application at the World Intellectual Property Organisation (WIPO) in Geneva under the provisions of the Patent Co-operation Treaty (PCT), designating one or more European countries where it wishes to be granted a patent (the PCT route).

(c) Filing a single patent application at the European Patent Office (EPO) in Munich under the European Patent Convention, designating any of the 17 current Member States where it wishes to be granted a patent (the EPO route).

2.3 The main benefit for UK patentees of having three systems, all leading to the grant of national patents, is flexibility. Thus:

(a) Using the national route for more than a handful of countries becomes increasingly expensive compared with PTC or EPC routes. On the other hand, if it is important to the applicant to obtain a patent quickly, the national filing route (at least in the UK) is greatly to be preferred.

(b) The main benefit of selecting the PCT route is that significantly more countries (including notably the USA and Japan) are signatories of the PCT, so that a single patent application can potentially lead to protection in all the important industrialised countries. This is particularly useful as a means for enabling major patent filing and prosecution costs to be postponed while the commercial value of the invention is assessed or licensees are found to finance those costs.

(c) Filing directly by the EPO route can speed up the process of patent prosecution as compared with the PCT route, but significant costs must be incurred sooner.

3. Advantages/disadvantages of Community Patent

3.1 *For the patentee*

The potential *advantages* are:

(a) Lower cost as compared with European patents. However, this potential advantage will only be achieved if translation costs and renewal fees are sufficiently low.

(b) Ability to secure a Community-wide injunction in a single infringement action.

The main *disadvantage* would be the "all eggs in one basket" problem, i.e. the potential loss of the entire Community patent as a result of a counterclaim for revocation having been filed in a national court with little patent experience.

3.2 *For third parties*

The principal advantage would seem to be that of greater legal certainty. Win or lose, a single national court would determine the position of a defendant for the whole of the Community.

4. WOULD THE LUXEMBOURG CONVENTION MODEL OF COMMUNITY PATENT BE USED?

We believe that industry would *not* use the Community Patent system as devised in the Luxembourg Convention because:

(1) The cost would be as much as that of securing a European patent in each of the 15 Community Member States of EPC. As much of industry is currently satisfied with European patents in only some 5 or 6 Member States, we anticipate that industry would prefer the European system.

(2) The possibility of court in a Member State where there is little experience of patent law revoking the patent for the whole of the Community is a risk that is said to be unacceptable.

5. WEAKNESSES/DEFECTS OF LUXEMBOURG CONVENTION

5.1 The Green Paper identifies the cost problems, but does not place any emphasis on the fact that European industry already faces *much* higher costs in securing patent protection in its home market (the Community) than do its American and Japanese competitors in theirs.

5.2 The Paper quite rightly touches on the cost of renewal fees, as well as translation costs. These are a heavy burden compared with the USA, where no renewal fees at all are charged (the need for translation obviously does not arise).

5.3 In relation to litigation, the Paper identifies the concern of potential users that, under the Protocol on Litigation, a patentee faces the loss of his Community Patent for the whole community if a defendant (in any national court) successfully counterclaims for revocation of the patent. This is said to be unacceptable, particularly where the national court is relatively inexperienced in patent cases. To this concern there seem to us to be two answers:

(a) It is unlikely that there would be any significant volume of patent infringement actions for a decade after the first Community patent application is filed, surely a sufficient period in which to provide training leading to well-qualified judges.

(b) A good Community Patent Appeal Court should minimise the risks in the longer term at least.

5.4 We are strongly opposed to the possible solutions to this alleged problem which are suggested in the Green Paper:

(a) That the EPO Revocation Division should have exclusive jurisdiction over issues of validity.

This proposal would provide no opportunity for national courts to have an influence on jurisprudence concerning validity questions. Instead, the "mind set" of the EPO would be applied:

(i) during prosecution;

(ii) in opposition proceedings; and

(iii) in revocation proceedings.

The only counterbalance proposed in the Paper, namely that of the CFI, would be unlikely to be effective on issues of substantive patent law.

(b) That national courts should have restricted powers of revocation.

It is implicit in this suggestion that national courts cannot be relied on to decide issues of validity for the whole European Community, while they can in relation to issues of infringement. This is illogical. To restrict the effect of a finding of invalidity to the Member State of the national court could lead to a bizarre situation. Presumably, the patentee suing in Member State A would be seeking an injunction to restrain infringement throughout the Community (otherwise the unitary advantage of the Community Patent would be lost). Would a national court order revocation of the Community Patent in member State A, while granting an injunction elsewhere in the Community?

6. A CASE FOR FURTHER ACTION AT COMMUNITY LEVEL?

6.1 Clearly, the Luxembourg Convention is unlikely to be ratified by all Member States in its present form. For an acceptable Community Patent system to be developed in the near future, concerted action on the part of the Commission will be necessary.

6.2 We would also like to see the Commission take a much more direct part in controlling the operations of the European Patent Office, which is singularly slow to accept criticisms of its practices, still less to improve them.

7. Should the Luxembourg Convention become a Regulation?

7.1 While we can understand why the Commission would like to act by means of a Regulation, there is a very serious disadvantage, namely the difficulties that would ensue in establishing any specialist Patent Appeal Court. The Green Paper suggests that appeals against decisions on the validity of Community Patents should lie to the Court of First Instance of the European Communities (CFI), on grounds of "lack of competence, infringement of an essential procedural requirement, the Treaty, or the legal instrument establishing the Community patent, or any rule of law relating to the application of either, or misuse of powers". However, it says nothing about appeals in relation to decisions of national courts on the infringement of Community Patents.

7.2 In our opinion, one of the most important aspects of any Community Patent system must be the means by which harmonised jurisprudence can be developed throughout the Community. This requires the setting up of an efficient appellate court.

7.3 Accordingly, if the appellate court is to be the CFI it must:

(a) be composed of competent patent judges; *and*

(b) have a wide jurisdiction over the EPO and national courts.

Unless this is possible we would prefer that the Luxembourg Convention be amended, *inter alia* to achieve such a court.

8. Implications for development of patent laws

8.1 Within the Community, it is already clear that it is difficult to achieve consistency in the application of the European Patent Convention. National courts struggle to reconcile their decisions with those of the Boards of Appeal of the EPO, and they may reach different decisions on identical facts while purporting to be applying the Protocol to Article 69 of the EPC in infringement actions. These problems emphasise the need for judicial arrangements which will promote consistency.

8.2 Harmonisation on the wider international level is also desirable where lack of harmony is potentially harmful to European industry. By way of example, if the US and Japanese Patent offices are granting patents for computer programs as such, it would seem perverse for the Europeans to maintain the express provision of Article 52(2) of the EPC which provides that computer programs "as such" shall be unpatentable.

9. Relationship with the EPC

9.1 The Green Paper suggests that an applicant for a Community Patent should have the option to convert its application into a European patent application, designating some but not necessarily all Member States. This seems sensible, provided the position of third parties is not prejudiced.

9.2 Unless all Member States of the Community have been designated, it should not be permissible to convert a European patent application into one for a Community Patent, since third parties should be entitled to assume that the applicant has decided not to seek protection in a Member State that was not originally designated.

29 October 1997

Letter from The Law Society of Scotland

The Intellectual Property Committee of the Law Society of Scotland considered the questions in your letter and made the following comments:

What is the value of patents to the United Kingdom industry?

Patents are of value to the UK industry since they justify the costs of research and innovation.

What purposes do the present patent systems in Europe serve for the United Kingdom?

The patent systems exist to serve industry in the UK for the reasons given in the above answer.

What would be the main advantages and disadvantages of patent protection covering the whole Community?

The advantage of a Community Patent system would be its simplicity and effectiveness; it would also eliminate any differences in levels of protection and in claims for patent infringement. The disadvantage would be the likely cost of translation, although there should be means of limiting the amount of translation required.

Would the Community Patent system be used?

A Community Patent system would be used, depending on the costs and as long as the defects as currently exist with the Luxembourg Convention were removed.

What are the weaknesses or defects of the Luxembourg Convention?

The Committee agreed that the main problems with the Luxembourg Convention are those described in the European Commission Green Paper, namely the translation costs and the judicial arrangements and that these matters must be addressed.

Is there a case for further action at Community level?

The Committee felt that there was a case for further action as the current system is not unitary.

Should the Luxembourg Convention be turned into a legal instrument?

The Committee was of the view that it was essential that the Community Patent system be covered by an EC regulation made under Article 235 of the Treaty. A regulation had been used for the trade mark system and no reason could be seen why it should not work for patents.

Is further harmonisation desirable?

The Committee considered that in a global market place, further harmonisation is necessary at worldwide level. There should be harmonisation on what is or is not patentable and on the point at which information on patents is published. Publication of patent information should be made at the same time. United States companies have an unfair advantage since patent information can be concealed longer than in Europe.

What should be the relationship between any Community Patent and the European Patent Convention?

The Committee considered that there should be a close link between the European Patent system and the Community Patent system. It was suggested that the Community should be deemed to be one country for the purposes of the European Patent Convention.

I also enclose a copy of the response which we will be sending direct to the European Commission on its Green Paper.[4]

I trust the above comments will be of assistance to you.

30 October 1997

[4] Not printed in this Report.

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