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Report on the patent dossier proceedings during the Slovenian Presidency of the EU

Introduction

To the present day, Europe has not yet been able to design a uniform and competitively priced patent for the whole Community, despite constant reminders of the Member States and more than 40-year long harmonisation process, says the European Commission's report on the improvement of the patent system in Europe. Even the parallel efforts at the level of intergovernmental agreements for the improvement of the existing European patent system under the auspices of the European Patent Organisation (EPO) have not yielded the desired results. Europe's competitive edge is threatened in this respect because Europe, due to the fragmentation of the Community market for patents, has been lagging behind the USA and Japan and even the new economic superpowers such as China, South Korea and India in the number of patents.

The lack of the critical patent mass in Europe has been most visibly reflected in the so-called triad patents (registered in the EU, USA and Japan), which are the most realistic indicator of the situation in the area of innovations. Europe has 33 triad patents per one million of inhabitants, the USA 48 and Japan 102. The data also indicate that considering the costs of the patent procedure and translation, the European patent, applicable in 13 EPO Member States, is 11 times more expensive than the American and 13 times more expensive than the Japan patent. Taking into consideration the total costs of a 20-years long maintenance of a patent, we arrive at the conclusion that these costs are almost 9 times higher for a European patent than for an American or Japan patent. Europe is thus losing its strength in the area of patent policy, which is of key importance for innovations.

Due to the globalisation of business operations, patent litigation is becoming increasingly internationalised today, which in particular applies to the European market. The existing system of judicial protection weakens the patent system because of the danger of a multiple patent litigation, stirring it up and on the account of different decisions, causing legal uncertainty for all the parties involved, which is reflected also in the resulting business decisions on investments, production and marketing of patented products. The available data from 2006 indicate that more than 90% of all patent litigation in the Community have been submitted to the courts of four Member States, i.e. Germany, France, Great Britain and Netherlands. The cumulative costs of a parallel litigation in these Member States range from EUR 310,000 to EUR 1,950,000 at the first instance and from EUR 320,000 to EUR 1,390,000 at the second instance both for the nullity and breach of a patent. Due to the small number of patent cases before the national courts (on the account of breaches and nullity of a patent, the average number of actions submitted before the patent courts of first instance is from 1500 to 2000 per year, of which 60% to 70% refer to European patents. Also, from 20% to 25% appeals are filed against the decisions of the first instance courts and there is a tendency towards the establishment of specialised courts at the Member States level. At the same time, the available statistical data indicate that it is little probable there would be enough cases justifying the establishment of two judicial systems for

actions on the account of breaches and nullity relating to European patents and Community patents, particularly at the appeal instance.

Thus the latest study of the European Commission (2006) on the topic of the patent policy future in Europe has only shown the urgency of taking measures to provide a uniform, simple and cost-efficient patent system that would include uniform procedures of testing and awarding the patents and the uniform procedures following the award of patents and related to settling litigation, under the condition that the establishing of a uniform judicial system would also be cost efficient.

Based on these guidelines and preliminary discussions of the presiding Germany and Portugal, the Slovenian Presidency designed a work programme for the patent dossier whose aim was to continue the debate on the European patent system in the manner that would encourage the Member States to agree on the actual measures for the progress of patent reform, i.e. the patent of the Community and the European judicial system for patents.

Strategy of the Presidency

The main interest of the Slovenian Presidency was to ensure further positive and constructive cooperation between Member States and to search, with the support of the European Commission, for possible and user-acceptable solutions regarding the two open issues of the patent dossier: designing the Community's patent and establishing the European judicial system for patents while simultaneously examining the possible legal frameworks for its establishment.

I. Community patent

Designing a uniform Community patent, competitive in price and providing legal certainty, is a priority for Europe. The main dilemma arising in this respect is the issue of the language of patent award and distribution of revenues from the levies payable for the maintenance of patents. In this context, the Slovenian Presidency started discussions with the working document no. 6985/08 *Patent of the Community: translation of patent claims and distribution of revenues from the levies*, offering two alternatives in terms of translation regime: the so-called flexible patent and automated translation by the central translation service.

In accordance with the first alternative, the patent holder could select the languages into which the patent that would be applicable in the entire EU would be translated; however, in this case, the patent would have legal effect against third parties only in those Member States into whose languages it would be translated.

The second alternative would provide that the patent claims (or patent registration with complete documentation) are translated in an automated manner in the central translation service. Thus the patent costs would be considerably reduced, the implementation procedure of patent protection would be accelerated and the legal certainty (one authentic language) would be increased, while at the same time, the interested public would be promptly informed. However, the translations resulting from such system, which is already used by the European Patent Office (EPO) for certain language pairs, is of informative nature only despite its several advantages. Such translations would not be considered legally valid in case of judicial disputes, therefore in such case, the holder of patent would have to submit subsequently the appropriate translation.

In the subsequent stages of meetings, the working document no. 8928/08 *To the Community patent*: *translation regime and distribution of levies* was dealt with, upgrading the solutions of automated translation from three different aspects: a stimulating approach for small and medium-sized companies with the possibility of filing a patent registration in the mother tongue, with national offices providing for the appropriate translation into one of the EPO procedural languages in cooperation with the applicant and with translation costs reimbursed from the common system. Immediate accessibility of information from the moment of patent registration translation, which, however, is not considered legally valid; and translation of the patent into the language of judicial proceedings in the case of dispute before the court. Great majority of the EU Member States and all European industrial associations or users have in principle supported the possibility of automated translation, so that the Presidency has focused on this alternative that provides for filing registration in any of the EU languages and financing of translation by the system.

The Presidency also proposed distribution of patent levies according to the following key: 50% go to the EPO and 50% to national offices; in the share intended for national offices, incentives for the promotion of innovations and patents (6%) will be stressed, and incentives for assistance in the use of language of procedure of the patent award which is one of the three EPO languages (11%), while the remainder will be distributed according to the existing level of patent activity and the size of the market. The debate confirmed the need for upgrading the criteria for distribution of levies according to the size of the market, patent activity and activities in the field of promotion of innovations and patents.

The latest working document in the area of the Community patent no. 9465/08 *Revised Proposal for a Council's Regulation on the Community patent* represents a significantly renovated and revised draft document no. 7119/04, because a number of provisions concerning the Community patent are defined in the document on the judicial system no. 9124/08. The document thus harmonises the work in both areas, while at the same time opening the possibility of filing the registration in the languages of all EU Member States within the language regime framework and providing the financing of translation on the part of the system.

Conclusion: The work on the possibility of automated translation and the issue of legal validity of translations is expected to continue at a simultaneous development of information technologies and consideration of exceptional achievements of the EPO in this area during the last three years. The final agreement on the distribution of levies should be an integral part of the package solution on the Community patent.

II. The European judicial system for patents and the legal framework for its establishment

The establishment of an efficient EU judicial system for patents is of key importance for designing a price competitive patent providing legal certainty, because national courts meet with numerous difficulties deriving from different national practices: differences in the experience of national judges, conflicting judgments due to different explanations of the substantive patent law, difficulties of patent holders in obtaining cross-border injunctions, discordance in the collection of actual evidence and cross-examination, different interpretation of the role of experts, etc.

Because the key issue concerning the future judicial system for patents is its legal framework, the Presidency prepared an informal working document containing an analysis of different legal frameworks for the setting up of the subject judicial system. The legal framework could be Articles 225.a, 229.a, 300 and 308 of the Treaty Establishing the European Community, the international treaty of Member States or mixed international treaties between the EU Member

States and EU non-member States with the Community. The last possibility, which had been assessed as possible also by the EU Council Legal Service, was evaluated due to circumstances and especially to openness towards the EU non-member states (EFTA Members, EPO Members), by the Slovenian Presidency as the most appropriate, so that it prepared a revised version of the document which includes the possibility of a mixed international agreement. In the continuation of discussions, a question was posed to the EU Council legal service concerning the compatibility of mixed international treaty with the EC Treaty or the possibility of including the EC Court of Justice (Article 300(6) of EC Treaty) and obtaining the Commission's mandate for negotiations. The debate will be continued within the framework of consultations with the EC Court of Justice.

Already during the first weeks the Slovenian Presidency supplemented the last document of the Portugal Presidency by the working document no. 5245/08 *Legal means, procedures and other measures* with the missing elements of the judicial system such as uniform procedural rules, legal remedies and sanctions. The contents was presented and commented by Member States at the first meeting of the working group.

This was followed by a new working document no. 5954/08 *Main characteristics of judicial system (1st part); legal remedies, procedures and other measures (2nd part),* bringing together all the issues of the judicial system (in the 1st part on the basis of informal document by the Portugal Presidency and in the 2nd part on the basis of the contents of the revised Slovenian document). The system should thus provide to the clients better accessibility to the courts with a certain number of first instance panels, as well as a centralised appeal court, with the possibility of using the existing national structures as an integral part of a uniform multinational judicial system for solving litigation and assigning the cases in the judicial office of a court on the basis of clearly defined and transparent rules to be based on the regulation Brussels I and other regulations of the already applicable legislation of the European Community. The judiciary would be thus competent for actions on the breach and nullity and the related claims as damage claims, as well as for special procedures as a reply to the needs of the interested parties.

Both the appeal court and the first instance panels should operate under the same rules of procedure on the basis of the best practices in Member States and with the use of knowledge and experience of specialised patent courts within the EU framework (for example, in the area of collecting oral and written evidence and written procedures, measures of legal protection, including the injunction and conducting the cases). They could profit by the work carried out among other things on the draft European Patent Litigation Agreement (EPLA). At the same time, this system should include both legally and technically capacitated judges with full judicial independence. The final arbitrator in the cases involving the EC *acquis* should be the EC Court of Justice, both in relation to the issues related to the *acquis* and the validity of the Community's patents.

The Member States generally supported the proposed solutions in the debate, but at the same time they stressed the issue on the unitary or duality of procedures, language of the procedure before the court, composition of panels, role of the EC Court of Justice and role of technical judges and the related quality of decision-making.

On the basis of preliminary discussions, the Presidency drew up a working document no. 7728/08 *EU Patent jurisdiction – preliminary range of provisions for the future legal act*, which contains drafts of articles of the legislative act for the future patent regulation. For the concluding meetings of Member States, it drafted a working document no. 9124/08 *Draft Agreement on the EU patent court*, which includes a possible form of the future legislative act, i.e. an international treaty between the EC and Member States with the possibility of access of

EU non-Member States. The annexes of this document contain the structure of subordinated provisions on the statute of the court and on the rules of procedure.

The revised working document no. 11270/08 *Draft Agreement on the EU Patent Court* was prepared by the Slovenian Presidency together with the next presiding country, France, taking into consideration the numerous comments and proposals of Member States and other stakeholders on the preceding document no. 9124/08. An annex was added to the document including the first draft statute of the EU Patent Court.

Conclusion: It is expected that work on the judicial system (including the legal framework) will be continued and political balance between the Member States in a given moment will be searched. It is not to be overlooked that the role of users (in particular associations of the industry and trades) will contribute importantly to the compromise for reaching a final conclusion.

Achievements of the Slovenian Presidency

The Slovenian Presidency has made an important shift in terms of substance regarding the future Community patent and the European judicial system for patents. Along that the Slovenian Presidency, together with the European Commission, has shaped active collaboration with key stakeholders and users. The discussion at technical level was intensive (nine meetings of the working group) and also included the discussion of texts of legal acts for the future patent of the Community and the future judicial system.

The key solutions publicly supported by the interested users of the patent system (associations of industry and trades, patent representatives, representatives of the judiciary, etc.) are:

- the system of automated translation for the Community patent,
- cost-efficient and accessible patent of the Community,
- transfer of competences in patent litigation into the common EU framework,
- system of restricted decentralization of the judicial system that would provide the formation of local units in the Member States and at the same time encourage the forming of regional units,
- support to the cost-efficient and user-friendly judicial system, as well as support to the professionally highly capacitated staff that would provide the efficiency of courts and by this also the legal certainty for patent holders.

At the May meeting of the Competitiveness Council, a report was presented with the evaluation of the Slovenian Presidency on the achieved progress in patent dossier, emphasising the need for further endeavours for searching final solutions regarding the Community patent as well as the system of resolving patent disputes.

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