

Community Court Raises Key Licensing Issues

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As Europe prepares for a community patent court, little attention has been paid to the implications for patent-related cases. This paper examines the pitfalls of an over-specialized patent litigation system.

INTRODUCTION

The discussions about the reform of the patent litigation system in the member states of the European Union are entering into a decisive phase. Whatever solution will be brought forward, it is likely that one or more specialized and centralized courts will be composed and designated to consider claims relating to the infringement and validity of European patents and community patents. For purposes of this article, such a court will be referred to as community intellectual property court or CIPC.

The issues that divide the parties during these discussions are, with few exceptions, of a political, financial and professional nature. The participants in Europe's patent litigation discussion are diverse in nationality, specialization, language skills and procedural background. Their concerns expressed regarding the future system's aim to preserve interests relating to the patent practitioners' profession, to the industry or to the political power that the individual member states (reflecting also the interests of their industries) will continue to yield in the appointment of judges, the control over compulsory

licences or anti-competitive behavior.

Therefore, it should not be surprising that the questions raised during the discussions about the future of the community patent system affect exclusively the functioning of the future court(s): How many courts shall there be? Who shall sit on these courts? Should the judges be specialized in patent matters or not? Should there be a centralized court on a first instance level or only at an appeal level? Who shall have rights of audience? What language(s) shall be spoken before these courts?

What is rarely addressed during these discussions — because it does not reflect nor represent any particular interest described above — is how the proposed patent litigation system will deal with ancillary issues such as the protection of know-how, breaches of contractual licensing agreements and acts of unfair competition, many of which occur simultaneously with acts of "pure" patent infringement. Whereas a pure patent litigation deals with disputes between parties who have no other commercial dealings with each other, there are many more disputes where patent rights are only a part of the dispute. Such cases are not clear-cut infringement/invalidity disputes, and involve other legal issues that also need to be addressed by the court. How will these be dealt with in the future system?

This article will draw attention to these other disputes, and examine how these will (or will not) be dealt with on a community centralized level in the future system, and

what the consequence of that might be. We shall start from the finding that in the national regulations, for reasons of public policy and coherence of dispute settlement, legislators have mandated that patent disputes and disputes relating to patent licences, as well as ancillary disputes relating to unfair competition and misuse of know-how, should be dealt with simultaneously before a single court. Assuming that this cannot always be the case in the future system, this article will examine what the consequences thereof may be, how to deal with this in future litigation, and how to draft appropriate licensing agreements in the future.

THE FUTURE SYSTEM

The envisaged powers for the CIPC are defined very narrowly and in an exhaustive way in the draft regulation:

Article 30.1. Exclusive jurisdiction of the CIPC: The community patent may be the subject of invalidity or infringement proceedings, of actions for a declaration of non-infringement, of proceedings relating to the use of the patent or to the right based on prior use of the patent, or of requests for limitation, counterclaims for invalidity or applications for a declaration of lapse. It may also be the subject of

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proceedings or claims for damages.

Article 30.3: The actions and claims referred to in paragraph 1 come under the exclusive jurisdiction of the CIPC.

(Proposal for a council regulation on the community patent presented by the Commission on 1 August 2000 (COM (2000) 412 final), n° 2.4.5).

The purpose of this exclusive jurisdiction is that only a CIPC can guarantee without fail the unity of the law and case law.

Centralization guarantees the patent owner legal certainty regarding the validity of his patent and the rules on its infringement (proposal for a council regulation on the community patent presented by the Commission on August 1, 2000 (COM (2000) 412 final), n° 2.4.5). Such centralization is also mandated for preliminary patent infringement proceedings. The Commission explicitly expressed its desire that no interference be made by national preliminary proceedings: "It is appropriate not to endow member states' courts with concurrent power to order provisional measures in cases where the centralized court would have jurisdiction to decide on the substance of the case. It is important, as far as possible, to prevent any inconsistency arising between the provisional and protective measures ordered by national courts and by the centralized court."

The national courts shall retain jurisdiction over all matters that have not been explicitly conferred upon the CIPC such as disputes concerning, for example, the right to the patent, the transfer of the patent and contractual licences.

Article 46: Jurisdiction of national court : The national courts of the Member States shall have jurisdiction in actions relating to community patents which do not come within the exclusive jurisdiction of either the Court of Justice

under the Treaty or the CIPC according to the provisions of Chapter IV, Section 1.

And in case of parallel proceedings, the CIPC should receive priority:

Article 51.3: Obligation of the national courts: A national court hearing an action or claim relating to a community patent other than the actions referred to in Article 30 shall stay the proceedings if it considers a decision on an action or application referred to in Article 30 to be a prior condition for its judgment. Proceedings shall be stayed either by the court of its own motion, after hearing the parties, where an action or application referred to in Article 30 has been brought before the CIPC, or at the request of one of the parties, and after hearing the other parties, where proceedings have not yet been brought before the community court. In the latter case, the national court shall invite the parties to bring such proceedings within a period prescribed by it. If such proceedings are not brought within the prescribed period, the proceedings before the national court shall continue.

HOW CLAIMS FOR PATENT INFRINGEMENT RELATE TO CLAIMS FOR UNFAIR COMPETITION

Claims for patent infringement rely upon a breach of a private monopoly right, whereas claims for unfair competition rely upon a lack of respect for fair trade practices, requiring a fault or a violation of a specific legal norm (Sylviane Durrande, « Les rapports entre contrefaçon et concurrence », 31eme cahier, Chronique, XXXI, A.31, Dalloz-Sirey, 1984). Each type of claim is based on different laws and has different purposes. For the purposes of this article, it is assumed that they relate to and

attack a similar practice as in a patent infringement claim, i.e., the copy of an allegedly protected (or proprietary) product or process.

In many national laws of member states, claims that are "based on" or "related to" patents are assigned to a specialized jurisdiction. This is justified by the high degree of specification of patent matters. Many national laws also require that claims for patent infringement that also comprise a related claim for unfair competition are brought before the same court that has jurisdiction to rule upon the patent claim. This is, for instance, the case in Belgium (article 73.1,2° of the Belgian Patent Act), in France (article L615-19 of the Code de la Propriété Intellectuelle) and in the United Kingdom (White Book, Vol 2, 1-140-1-142.2D-1 and 2D-2).

This centralist requirement has a double purpose. In the first place, it is not desirable that two separate courts rule on the legality of the same facts, regardless of whether they apply patent law or other laws when they examine the legality of these same facts (in most jurisdictions, claims for unfair competition will only be allowable in conjunction with claims for patent infringement if both claims relate to different, although very interconnected, facts). Suppose that a suit is brought against the commercialization of a product, based on a claim for patent infringement (attacking the act of commercializing the product) and on a claim for use of illegally obtained know-how (attacking the misappropriation of the know-how). Both claims aim at stopping the commercialization of the same product, but are based on different laws. There is a risk that contradictory decisions are rendered whereby one court would authorize the commercialization of the product, while another court would issue an injunction for this same product (for an example of

this line of argument, see: Lyon, 11 March 1971, D., 1972.307, confirmed by the Commercial Chamber of the Supreme Court, 27 November 1972, Bull.civ., IV, n°307, p. 286). While both court decisions are not necessarily incompatible from a legal point of view, an efficient administration of justice mandates that both claims are heard and dealt with simultaneously by the same court. This is the first and most obvious reason to favour centralization.

The second reason is related to the first one, but more important. For reasons of public policy, considered in many national jurisdictions, it is accepted that where a specific law organizes a specific type of protection and when the conditions for this specific type of protection appear not to be fulfilled, one can no longer rely on the general norm to find an alternative legal basis against the same facts. This general principle is known as "lex specialis derogat lex generalis" in Latin and mandates application of a special rule over a rule with a broader scope of application. In intellectual property matters, scholars have identified the *effet reflexe* between protection via patents, copyright, designs or trade marks on one hand and unfair competition laws on the other hand (the "effet reflexe theory" has been examined by Andrée Puttemans in her doctoral dissertation: "La protection des droits intellectuels par l'action en concurrence déloyale," Brussels, Bruylant, 2000)

This principle means that once one of these types of specific protection is applicable, reliance on unfair competition laws is excluded as an alternative (or as a back-up) for obtaining the same result. For instance, when a product falls outside the scope of a patent, or the protecting patent is declared void, its manufacture or distribution cannot be prohibited anymore on the basis of unfair

competition laws (for an example in Belgian case law, see Pres.Comm. Bruxelles, 10 June 1992, Ann. Prat.Comm., 1992, 423; Pres. Courtrai, 1 April 1999, Ann.Prat.Comm., 1999, 899). Unless, (and here is where the national systems have varied approaches to this problem) there are other facts that accompany the manufacture of the products and that make these acts unlawful on other grounds than the fact that they constitute unauthorized copies.

When a single court has been given exclusive jurisdiction to rule upon all the claims related to a patent infringement, there is no need to define the border lines between patent claims and claims of unfair competition as far as jurisdiction is concerned. The court will be in a much better position to find when an act, although not falling under a patent claim, may nevertheless be enjoined by an action based on unfair competition law.

CLAIMS RELATED TO PATENTS UNDER THE FUTURE SYSTEM

If, under the proposed system for a community patent, one or more centralized courts is given exclusive jurisdiction to hear only claims relating to infringement or validity of a community patent, the current requirement in national laws of bringing ancillary claims for unfair competition before the same court, will no longer be maintained. This will at least be so if the court of first instance is also centralized at the community level. In the context of the revision of the European Patent Convention, it has been emphasised that a system with first instance national courts would offer the advantage that such courts could also decide on cases involving further claims — such as competition law — not covered by the patent (first proposal for an

EPLP, paper of the working party on litigation, p.14, <http://www.ige.ch/D/jurinfo/j.12.htm>). This would not be possible in case of centralization. In any event, if it were allowed on first instance level, problems would arise in case of the appeal of such a decision before a centralized court.

This could have the following, negative consequences:

- Duplication of legal proceedings. Separate proceedings can be brought before, respectively, the CIPC for infringement claims, and before one (or more) national court(s) for claims based on unfair competition laws. Although there is a specific provision in the draft regulation that national proceedings containing claims "relating to a community patent" must be stayed in favour of the community proceedings (Article 51.3), there is a risk that such provision will not work efficiently or that it will be used only for dilatory purposes. Which criteria will be used to determine whether or not a claim "relates" to a community patent? And, when the claims relate to a community patent for which the CIPC has exclusive jurisdiction, how will the national court determine whether the outcome of the proceedings brought before the CIPC is a prior condition for its judgement? Suppose that a national court is seized with a claim that a product (which is also said to infringe a community patent) is made with illegally acquired know-how. Would the national court have to stay its proceedings while the community patent court is seized with the claim for patent infringement? The finding of misappropriation of know-how seems in such case not a "prior condition to the patent judgement" and the national court would be keen not to stay its proceedings. It could order the cessation of its manufacture on totally different grounds to the patent law. But the CIPC could shortly thereafter find that the patent is invalid

because the so-called proprietary know-how was not secret and older than the patent, and has in fact invalidated the patent. Both courts would take a totally different position on the same technology in terms of protectability, and issue decisions that will give rise to conflicts and inconsistent situations.

- Plaintiffs will try to “shop around” and first try out the national court before initiating litigation before the CIPC, or vice versa. If a clear distinction is maintained between the jurisdiction of each court, a plaintiff could speculate on a double chance to obtain success, and try out different arguments before each court.

- The predominant role of the unfair trade practice court will be undermined. In certain jurisdictions, such as in Belgium, specialized unfair competition proceedings exist in the form of an action en cessation (for details over this proceeding, see D. Dessard “L’action en cessation et les droits de propriété intellectuelle,” in *Les pratiques du commerce. Autour et alentour*, 1997, p. 156), which are dealt with quickly and which cannot be stayed in favour of other proceedings, even criminal proceedings (Article 106 of the Belgian Unfair Trade Practices Act). Admitting that these national proceedings should nevertheless be stayed in favour of the centralized patent proceedings would run afoul of the desired efficiency of the national proceedings. Bearing in mind that unfair competition laws aim more at preserving the public interest than a patent right, it could be argued that national proceedings should never be stayed as soon as the unfair trade practice can be handled by the national court inde-

pendently of the issue of validity or infringement of the patent.

- A revival of unfair competition theories to combat illegal copying. When the national courts narrowly interpret article 51.3 of the regulation when applying the rule that they should stay their proceedings if the patent issue is “a prior condition for its judgement” there will be an opportunity for parallel litigation before the national court and the CIPC, a practice which had been banned in many national patent systems. Depending on the efficiency of the future CIPC, this could be a healthy or a disturbing development. In any event, it will cause a revival of unfair competition litigation before the national courts and reinstate a practice that the legislators in many countries wanted to disappear.

- What about the enforcement of anti-competition rules? The jurisdiction of the CIPC does not seem to cover counterclaims for anti-competitive behaviour of the patentee. It should be noted that article 40 of the draft regulation gives standing to the European Commission to sue for invalidation of community patents and to intervene as a third party in proceedings before the centralized court (Article 40 of the proposed regulation says: “Where necessary in the Community’s interest, the commission may bring invalidity proceedings against a community patent before the CIPC. The Commission may also, under the condition referred to in paragraph 1, intervene in all proceedings before the CIPC.”). It is not clear however if this possibility shall be used by the Commission to enforce its competition policy, and how the CIPC will deal with competition rules in an infringement dispute.

Here again, the risk of parallel proceedings is clearly present.

PATENT INFRINGEMENT AND LICENSING DISPUTES

As stated above, in many disputes the existence of a patent is only part of the litigation. Very often the parties to the litigation are bound by licensing agreements. A patent licence agreement can be a source of disputes which, at least initially, have nothing to do with patent infringement or invalidity. The dispute can concern the amount or the payment of the royalties, a breach of a confidentiality undertaking, the term of the licensee’s right, the assignment of the licence, the warranties, the obligations at the expiration of the licence etc. Very often, however, the dispute amounts in a counterclaim whereby the validity of the patent is challenged and/or the scope of the patent must be examined.

The draft regulation states in its introduction that “all other disputes, which do not fall under the exclusive jurisdiction of the CIPC, will have to be dealt with by the national courts, i.e., the contractual licences” (page 15). On the other hand, Article 19 of the draft, (contractual licences) provides: “the rights conferred by the community patent may be invoked against a licensee who breaches any restriction in the licensing contract. “Hence, the CIPC has jurisdiction to take into account and consider the licence agreement (scope of the agreement, field of use and territory, duration of the licence, improvement clause, etc.) and to determine whether or not the licensee infringes the licensed rights.” Similar provisions can be found in national laws (for example article 45.2 of the Belgian Patent Act). So a licensor does not have to “shop around” and can combine a claim for patent infringement with

a claim for violation of the licence agreement before the community court. This should also be the case upon or after the termination of the licence agreement.

Problems may arise however when a licensor wishes to enforce a particular clause in his licensing agreement which has no bearing with the patent. In such a case he is bound to introduce his claim before a national court or before an arbitration panel, if provided for in the agreement. What if during such proceedings the validity of the patent is questioned by the defendant/licensee? The regulation provides that the national court should consider the patent as valid until invalidated by the CIPC (article 51.2) Such a defence would thus fail, unless the national court considers the validity of the patent a "prior condition for its judgment" (article 51.3).

If the licensor wishes to terminate the licensing agreement for breach of contract on grounds which have no bearing on the patent, a dispute arising from that termination does not fall under the exclusive jurisdiction of the CIPC. Such disputes will have to be brought before a national court. But very often the licence agreement will contain an obligation for the licensee to stop practising the patent. If this obligation is not respected, to which court should the licensor go? It would appear that there is no exclusive jurisdiction for such a claim with the CIPC, so that the licensor/patent holder has the choice of bringing such a claim before the national court or before the community court. If he brings the suit before the national court (where the termination dispute is probably already pending) these proceedings risk however being suspended if the validity of the patent is challenged. In either case, a double litigation seems inevitable.

An action for recovering unpaid

royalties will have to be introduced before the national court because it does not fall under the exclusive jurisdiction provisions of article 44 and the claim is based on a contract. However, if royalties are claimed for surpassing the scope of the licence agreement, article 19.2 of the draft regulation provides the opportunity (but not the obligation) to sue before the CIPC. When damages are claimed, only the CIPC seems to have jurisdiction (article 44). It is clear that many disputes will involve a combination of both types of claim so that double litigation will become, also in such cases, inevitable.

TIPS FOR THE FUTURE

The risks of duplication of litigation, as discussed above, can be reduced by carefully drafting the licence agreement. It is also advisable to amend existing licence agreements to cope with the future changes. These amendments should take account of the following:

It is desirable to split patent licence agreements from know-how licence agreements, and avoid combined technology licensing agreements.

A combined technology licensing agreement can however contain separate dispute resolution mechanisms for each type of licensed technology. Splitting jurisdiction according to the type of litigation and the subject matter involved is not uncommon in licence agreements (Noel Byrne, *Licensing technology, drafting and negotiating agreements*, London, Anthony Rowe Ltd, 1994, p. 294).

Although both proposals will inevitably cause a multiplication of litigation in the event of disputes, they will create greater certainty for the parties.

Regarding arbitration, one must take into account that the regula-

tion allows arbitration of disputes involving community patents only for infringement, and not for invalidity (Article 53 of the draft). In Belgium, an arbitration panel can invalidate a patent and such invalidation has effect erga omnes (article 73 §6, al 2 of the Belgian Patent Act). So an arbitration clause for a community patent licensing agreement must contain a different dispute resolution mechanism depending on whether the dispute concerns 1) a claim for patent infringement, 2) a claim for invalidity of the patent, and 3) other contractual issues which fall outside the scope of article 19 of the regulation.

Special provisions must be made for preliminary relief. The parties could agree that provisional measures (other than those falling under the exclusive jurisdiction of the CIPC) can be ordered by a national court (or arbitration panel) of their choice, notwithstanding litigation on the merits.

NEED FOR WIDE POWERS

The proposed regulation on the community patent is ambitious and will without any doubt improve the enforcement of patent laws in the European community. However, the goal of reducing multiple proceedings by setting-up a centralized CIPC may not be achieved if that court has too narrowly defined functions and jurisdiction. Patent disputes are rarely confined to issues of infringement and validity, and often involve other legal issues which will not be dealt with by the centralized court. The future system will therefore not "centralize" patent litigation as much as was intended. The draft regulation offers many possibilities for conducting parallel proceedings before the national courts, creating a genuine risk of delays, complications and incompatible judgments.

The best way to overcome this risk is to follow the example of the community trademark court system, whereby national courts act as a specialized community court with full jurisdiction over all aspects not specifically regulated by the community patent regulation. Structuring the future CIPC along these lines, i.e. national courts with an extended jurisdiction for community patent disputes, is to be preferred to a system with exclusive, over-specialized courts and judges which may have no feeling for most other disputes which concern parties in a patent litigation.