Recent Legislative Changes Affecting IP Litigation In Europe

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Introduction

This paper considers the potential impact of two recent legislative changes—the EU Intellectual Property Enforcement Directive[1] and the UK Patents Act 2004—on the way intellectual property rights are litigated in Europe. Its primary focus is on the impact in the UK; particularly as the second of the legislative changes addressed has direct effect only in that country. However it also considers the broader implications of the changes.

Given that many technology transfer agreements are entered into to settle or avoid actual or potential litigation, these changes are also likely to affect the work of those involved in licensing technology in Europe. In particular, by harmonising many of the procedures, the changes should make it easier to determine the level of risk, and the timing and cost, of potential litigation, and as a result the extent to which a licence might be more appropriate. Also, if the changes achieve their desired effect of making the IP litigation system more accessible to small and medium sized enterprises, that may improve the negotiating position of such organisations in the licensing context.

The changes have a number of common themes: they both seek to harmonise procedural aspects of laws affecting intellectual property, or at least, in the case of the Directive, set minimum standards; and also seek to bring national laws into line with international law, in particular TRIPS and the European Patent Convention as amended at the Munich Intergovernmental Conference in 2000 ("EPC 2000"). However they differ in the approach they take to achieving these objectives. The Directive seeks to make it easier for intellectual property right holders to enforce their rights on a consistent basis throughout Europe—a change which IPR holders ought to welcome. The Patents Act also makes it easier for Small and Medium-sized Enterprises (SME's) to engage in IP (in this case patent) litigation, by bringing in additional or alternative procedures designed to make it quicker and cheaper to resolve disputes. Where the SME is the owner of the IP right, this move is consistent with the objectives of the Directive. However where the SME is the alleged infringer, the consistency breaks down.

The Intellectual Property Enforcement Directive

The Directive was adopted by the European Parliament and the Council on 29 April 2004. It must be implemented into national legislation by individual Member States by 29 April 2006.

The Directive introduces for the first time minimum standards concerning the procedures for the enforcement of intellectual property rights in the EU. Individual Member States may introduce more stringent measures. Treaties under international law remain unaffected. Initial proposals regarding siphoning-off of profits, punitive compensation at double the level of objective damages, and criminal sanctions were not adopted. Instead, the Directive's application was limited to infringements within a commercial scope.

It is intended that right-holders themselves, other persons authorised to use such rights and their relevant representatives, collecting societies and special professional organisations should be able to arrange for the enforcement of measures against the infringement of intellectual property rights.

The Directive attaches particular importance to the preservation of evidence. Pursuant to Art. 7 Member States must introduce measures which, on the basis of a detailed description or the taking of samples, permit the physical seizure of the infringing goods, if necessary without the potential infringing party having been heard. The obtaining of evidence is also to be simplified. Where the applicant considers that it has submitted all pleadings in support of its claim and where the legal infringement can only be proven on the basis of material from the potential infringing party, it is the latter party that is required to provide corresponding evidence, in particular banking documentation.

The right-holder's possible claims are clearly defined with regard to their results:

- injunctive relief, subject to a penalty payment and, if necessary, seizure;
- claims to information, including against intermediaries;
- compensation—guidance on calculation of damages is provided in Art. 13;
- corrective measures, i.e. recall from the channels of commerce,

1. Official Journal of the European Union, L 157/45; Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights.

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definitive removal of infringing trademarks from the channels of commerce and destruction;

• in return for the payment of a reasonable indemnification, measures may be refused on request in the event of non-wilful or negligent conduct;

• procedural decisions should be published in order to increase consumer awareness; and

• procedural costs are borne by the losing party.

The measures to be implemented by the Member States must always be applied proportionately.

It remains to be seen how the Enforcement Directive will be implemented by Member States. In some countries (including the UK, but also e.g. Germany), no great changes are expected since local practice already offers appropriate mechanisms for the enforcement of intellectual property rights. Elsewhere, particularly in some of the newer Member States, more significant changes are likely to be needed to bring local practice into line with the Directive.

The Patents Act (2004)

The Patents Act 2004 (the "Amending Act") amends the UK Patents Act 1977. Some of its provisions have already come into force, and the rest are expected to come into force progressively in during 2005. The UK Government was obliged to make certain changes to UK Patents Act 1977 (the "Act") to bring it into line with EPC 2000. It took advantage of this opportunity to bring in other changes to try to remove the barriers which the government felt exist to SME's enforcing their patent rights and defending third party claims in the UK, and generally to update the Act.

From a litigation perspective, the most significant amendments concern the following issues:

• Post-grant amendments and limitations on damages;[2]

• Groundless threats;[3]

• Opinions by the Patent Office;[4] and

• Costs.[5]

Amendments of patents after grant and limitations on damages

Under the Act as it stands, damages may be awarded for pre-amendment infringement of a patent which has been amended after grant (either voluntarily or as a result of a finding of partial invalidity) only if the patentee proves that the specification of the patent as published was framed in good faith and with reasonable skill and knowledge. If these criteria are satisfied, and the substantive requirements are met, the amendment should be allowed, and damages awarded. It does not affect any other national counterparts to the relevant patents granted under the European Patent Convention.

Sections 2 to 4 of the Amending Act (which were compulsory amendments under the revised EPC) change that position in the following ways:

(a) they require the UK court or Patent Office, when considering whether to allow the amendment, to consider "all relevant principles applicable under the EPC" before ordering or refusing a request for an amendment, and make it possible for the amendment of a European Patent (UK) be effected at the EPO, rather than through the UK Court or Patent Office; and

(b) they add a requirement, namely that in order to obtain financial relief, the patentee has to establish that the proceedings for infringement themselves were brought in good faith.

Procedural changes: The aim here is to ensure, as far as possible, that there is consistency in approach as regards post-grant amendment in national proceedings and before the EPO. There were calls for the discretion which UK Courts and the UK Patent Office have in relation to amended proceedings to be scrapped. However these were rejected in favour of a compromise: retaining the discretion while requiring the Court or the Patent Office to refer to relevant EPC principles in exercising it. Article 138(3) EPC 2000 requires contracting states to enable a patent proprietor to amend his patent by limiting the claims in national proceedings for revocation of the patent. Article 105a(1) EPC 2000 adds to this: conferring on the EPO discretion to allow or refuse an amendment of a European patent by limitation of the claims. The first of the procedural changes referred to above require UK institutions to take account of these provisions, as well as any relevant regulations, guidelines and/or EPO decisions, in deciding whether to allow amendment, and if so how.

The second change, enabling the patentee to amend at the EPO, should also avoid national patents originating from a single application ending up providing a different scope of protection in different European countries. Note however that the UK Court or Patent Office still has to be satisfied with both the substance of the amendment and the speed with which it is effected—failing which it can take back control of the proceeding and make its own decision on amendment.

Proceedings Brought in Good Faith: The objective of this change is to protect potential infringers from patent proprietors who act covetously.

There is no guidance on what is meant by the requirement that "the proceedings must be brought in good faith." A relevant factor would presumably be whether the patentee was aware that his patent was invalid, or at least partially invalid, at the time proceedings were instituted. Knowledge of questions about the validity of one's own patent will often stem from patent prosecutions carried out in other jurisdictions. For a number of years the U.S. have had a system whereby an Information Disclosure Statement had to be filed before the U.S. Patent and Trade Marks Office during prosecution. It discloses all of the prior art that the patent proprietor is aware of. If the list is later proved to be inaccurate then the pat-

2. Sections 2, 3, and 4.
3. Section 12.
4. Section 13.
5. Section 14.

ent will be invalid. This provision of the Amending Act may achieve similar results, but only in relation to claims for damages.

The provision might also apply where a patentee becomes aware of prior art that invalidates or partially invalidates his application for a patent prior to grant, but fails to disclose that to the EPO or UK Patent Office—although that too is unclear. One option for a patentee in that position may be to submit the prior art to the UK Patent Office and ask them to provide an opinion as to the patent's validity (see below).

If the patentee decided to institute proceedings and was unsuccessful in overcoming the prior art, he might still be able to convince the court that he should be entitled to damages on the basis of the valid claims because he believed, in good faith, that the patent was valid (and the prior art irrelevant). An opinion from a patent attorney or solicitor to this effect obtained prior to instituting litigation may go some way to showing the requirement of good faith. Obtaining non-infringement opinions is common practice in the U.S. Of course, having to obtain such an opinion would increase the costs for, and barriers to, companies and individuals enforcing their patent rights in the UK. If this were to become a requirement for proving good faith, the objective of decreasing barriers for SME's would not be achieved.

Groundless Threats

Currently, section 70 of the Act provides a remedy to a third party aggrieved by a groundless threat of infringement proceedings. Under the Act as it stands, a threat is groundless if it is made on the basis of a patent later shown to be invalid (for any reason) or in circumstances in which the third party did not actually infringe the patent.

The Amending Act limits the circumstances in which a claim for groundless threats can be made. The objective is to make it less risky for patent proprietors to assert their patent rights. It also helps to allow parties to try to settle their dispute without resorting to litigation. In the past, the risks associated with writing to a third party threatening to assert one's patent rights steered patentees towards instituting proceedings without notice rather than running the risk of a threats action.

A new sub-section (2A) has therefore been added into section 70 of the Act. It provides that a patentee shall be liable for groundless threats only if it is shown that the patent was not infringed or invalid *in a relevant respect*. Furthermore, if the patentee can show that he did not know and had no reason to suspect that the patent was invalid, then the aggrieved party shall not be entitled to the relief claimed. As with amendments of granted patents and damages claims on the basis of partially invalid patents, knowledge that the patent was invalid at the time the threat was made is pivotal. The same considerations will apply here as in relation to amended sections 62 and 63 and the onus will be on the patentee to prove that he was not aware of the patent's invalidity in a relevant respect.

The second change to Section 70 also aims to limit the circumstances in which threats actions can be brought against patent proprietors. Under the Act as it stands, a patent proprietor could not be liable for groundless threats if he limited the cited acts of infringement to manufacture or import of a product for disposal or use of a process. The distinction between threatening a manufacturer for selling and threatening a manufacturer for manufacturing was accepted in the decision of *Cavity Trays Limited v. RMC Panel Products Limited* as being arbitrary. The Amending Act therefore removes the distinction. It provides that proceedings cannot be brought on the basis of a threat by the patent proprietor to bring proceedings against a person who has made or imported a product, or used a process, for doing anything else in relation to that product or process. Therefore, threatening the manufacturer of the patented product with an infringement action for selling the product is no longer actionable as a "threat" under the Act.

The Amending Act then goes a step further. It provides a defence against an action for threats made against so-called "secondary infringers"—those that do not manufacture or sell the product or use the process, but who otherwise infringe the patent (for example, by selling the patented product). Provided the patentee has used his best endeavours, without success, to discover the identity of the person who made or imported the patented product or used the patented process and informs the third party of his efforts before or at the time of making the threats, then the patentee shall have a defence to the threats action.

Identifying the manufacturer of a product often is a fairly simple task. In cases where it is not, it remains to be seen what will constitute "best endeavours." If the aim of limiting the threats provision is to make it easier for SME's to enforce their patent rights (in this case without the fear of retribution), then the term should be interpreted broadly, making it more easily satisfied. If a patentee has to incur significant costs identifying the manufacturer of the product, then the purpose of the amendment to the section will have been defeated.

The key therefore to avoiding a threats action, is identifying, or at least using every available means to identify, the person who is manufacturing or importing the product alleged to infringe the patent. Once the manufacturer is identified then only it (and not any of its distributors) should be threatened with infringement proceedings if the threats action under the Act is to be overcome.

Finally, Section 70 will be amended to make it clear that providing factual information about a patent and enquiring from a person for the sole purpose of discovering whether, or by whom, the patent has been infringed does not constitute a threat.

Opinions by the Patent Office

Staying with those provisions which have been enacted to try to re-

duce the barriers to SME's enforcing their patent rights, the Patent Office have introduced a service whereby a patent proprietor or any other person may request an opinion as to whether:

1. A particular act constitutes or (if done) would constitute an infringement of the patent; or

2. The invention in question is not patentable because it is not novel or is obvious in light of the prior art.

The Trade Marks Office has offered a similar service for many years which has proved popular, particularly with individuals and small businesses. It is hoped that these opinions, although not legally binding, will encourage parties to settle their disputes. So, where the opinion is in favour of the patentee, the alleged infringer might be encouraged to settle the dispute. An opinion against the patentee might encourage it to abandon the claim.

The value of an opinion such as this depends very much on the quality and, therefore, reliability of it. The Patent Office (or at least the European Patent Office) will have given a validity opinion at the time of grant of the Patent. Unless there is new prior art which the patentee or third party would like the Patent Office to consider, it would be difficult for the Patent Office to depart from its original view that the patent was valid. An opinion by the Patent Office that a newly discovered piece of prior art does not invalidate the patent will of course go a long way to establishing good faith when bringing later proceedings based on the patent (discussed earlier).

Infringement opinions are likely to be more popular. However, as very few if any infringement actions have been heard in that forum, it is questionable whether Patent Office staff have the necessary expertise and experience in analysing the questions which arise in considering the infringement of patents. Secondly, it is generally true to say that the more information the opinion giver has on hand the more valuable the opinion will be. The Patent Office, unlike advisers acting on behalf of the person asking for the opinion, is unlikely to have access to experts. It will have only the evidence which is put before it and whatever other evidence is available to it from public sources.

The Patent Office therefore faces an uphill battle, particularly in the next few years, to establish its credibility as a body able to give these sorts of opinions. If it achieves this, the validity and infringement opinions it gives will have their place in patent litigation in the UK, particularly for SME's who cannot afford the legal fees to obtain such an opinion from a firm of solicitors.

There are, however, some considerations which might discourage patentees from obtaining an opinion from the Patent Office. First, while obtaining a similar opinion from your solicitors is privileged (subject to what the House of Lords decide in the Three Rivers decision), an opinion from the Patent Office would not be. The patentee would therefore be forced to disclose the opinion to the court and, if not in his favour, explain to the court why the opinion was incorrect. Secondly, if the Patent Office's opinion is that the patent is partially invalid and the court in which the patentee later brings proceedings agrees with that opinion, then the patentee will have a difficult job persuading the court that he brought the proceedings in good faith. Failure to establish this will result in the patentee not being able to claim damages.

Costs

In a late change to the Bill, introduced into the House of Commons on its third reading there, section 14 of the Amending Act was introduced and amends section 106 of Patents Act 1977. Prior to the amendment, section 106 applied only to section 40 proceedings (under which an employee who has made an invention which belongs to the employer and for which a patent has been granted may claim compensation if he or she can show that the invention has been of outstanding benefit to the employer).[6] It requires the court to have regard to all the relevant circumstances, including the financial position of the parties, when assessing costs. Section 14 extends the scope of this requirement to include proceedings for infringement, a declaration of non-infringement and groundless threats. It will apply to proceedings commenced on or after the commencement of the section itself.

Extending section 106 is another attempt to make the enforcement of patent rights more attractive for SME's (and in particular to make it easier for SME's to bring infringement proceedings). Parliament recognised the need to balance this with fairness to the party against whom enforcement action may be taken, which might itself also be an SME. It was also suggested that the possibility of having to pay costs regardless of the outcome (particularly for larger, more profitable companies who might otherwise be tempted to out-muscle smaller companies) might encourage parties to settle litigation earlier than they would have otherwise. On the other hand, the fact that a small company or individual may be able to bring litigation in the hope of an advantageous settlement with little concern for a potential costs order against it, might encourage vexatious litigation (particularly if the companies lawyers are acting on a conditional fee arrangement).

The effect of the section is to render the financial position of the parties a relevant circumstance each time there is an assessment of costs. However, it is clear from the explanatory notes to the Amending Act that the parties' financial position is only one of the relevant circumstances that the court must take into account. This is consistent with CPR 44.3, which requires the court to have regard to all the circumstances of the case in awarding costs in civil

6. Incidentally, Section 40 was also the subject of a minor amendment by the Amending Act. Previously, the employee had to show that the patent (as opposed the invention) had been of outstanding benefit to his or her employer.

proceedings. The conduct of the parties may also be a relevant circumstance or even the most relevant circumstance. It seems then that the Amending Act has only made compulsory a consideration which was previously within the sole discretion of the judge. By doing so, the Amending Act is likely to make costs assessments more complex than they already are and discourage parties from settling them.

Whether the extension of section 106 has any material effect on patent proceedings in the UK remains to be seen. It was acknowledged during parliamentary debate that the amendment was only likely to assist on certain occasions. The cost of instigating and running enforcement proceedings (involving difficult technical and legal arguments) which are incurred even before a costs order is made may still prove to too prohibitive for an SME. Of course, these costs can be avoided with a conditional fee arrangement.

Conclusion

No litigation system is perfect. That applies as much to systems for the enforcement of intellectual property rights as for any other area of law. The UK IP litigation system is often described as being a "Rolls Royce" system—thorough procedures, high quality judges and advisers, but at a high cost. At the other extreme, systems for enforcing intellectual property rights in some of the new EU Member States are substantially less well-developed: it remains to be seen how effective they will be, and whether their inevitably lower costs nevertheless provides value for money. The objective behind both of the legislative changes considered in this paper is to narrow these differences: the Enforcement Directive, by setting minimum standards to enable IP right holders to enforce their rights more effectively throughout the enlarged EU; the Patents Act by adapting the UK system to the needs of SME's, without detracting from its qualities. Only time will tell whether this laudable objective will be achieved, and how they will affect the task of those involved in negotiating technology transfer agreements affecting the European market.