

Kluwer Arbitration Blog

A European Perspective on the Arbitration of Patent Disputes

David Perkins and Richard Price (JAMS) · Tuesday, March 29th, 2016

Arbitration of patent disputes in the United States is on the rise. While, perhaps, somewhat behind the U.S. in that respect, the evidence is that this pattern is being paralleled in Europe. Indeed, there is reason to believe that the volume has already significantly increased over the past few years and is likely to increase still further in future. Why is this?

The failings of the current system in Europe

In a judgment as far back as 1999 (*Sepracor v Hoechst Marion Roussell* 1999 1 AllER (D) 80) the late Mr. Justice Laddie characterised the European system of patent litigation in the following terms: “A less satisfactory system could not have been dreamt up by Kafka.”

Currently, under the European Patent Convention (EPC) European Patents (EPs), once granted, devolve into national patents in the designated Contracting States. There are 38 Contracting States to the EPC. Each Contracting State has exclusive jurisdiction in relation to the validity and infringement of EPs registered in its jurisdiction. Over the years, this has resulted in conflicting decisions in different European territories on the same EP and the same alleged infringement. Well known examples include the *Improver v Remington* litigation in the 1990s (the EPILADY cases); *Document Security System v The European Central Bank* (the Euro banknote cases) in the mid-2000s; and, more recently, *Novartis v Johnson & Johnson* (the contact lens cases) in 2010 and *Occlutech v Aga* (medical devices) also in 2010.

Coupled with the potential for conflicting outcomes, despite the Commission’s efforts to harmonise procedures among the 28 EU Member States (the Enforcement Directive 2004/48/EC), there remain significant differences in procedures among European jurisdictions. For example, the Common Law procedure of the English Patents Court and the Irish courts and the Civil Law procedures of the German and most other Continental European Courts. Germany, in particular, operates a bifurcated system. The District Courts try infringement, but challenges to validity are dealt with in separate proceedings by the Federal Patent Court in Munich. The former is a relatively quick and pro patentee procedure, whereas the latter is known for its slowness and the high proportion of decisions reversed on appeal to the Federal Supreme Court (BGH) in Karlsruhe.

There are also timing and cost difficulties with the current system. TRIPS Art. 41 mandates a right to appeal from any decision revoking a patent and, country-by-country in Europe, this typically, results in two levels of appeal. It is also costly for parties to litigate their patents in parallel in the various European jurisdictions of primary importance to them.

No single European Court has pan-European jurisdiction to adjudicate patent infringement and/or validity. With the exception of a national court's ability to award preliminary relief (e.g. an injunction), no single national court can adjudicate cases cross-border; the days of the so-called "Italian Torpedo" are long gone.

The Unified Patent Court (UPC), a Federal Patent Court for Europe: does it provide the answer?

To remedy this, in 2012 the European Commission eventually succeeded in establishing the first Federal European Court system. This is the Unified Patent Court. The Rules for the UPC were substantially settled (at the 18th draft) in October, 2015 – court fees and recoverable costs were outstanding and were agreed by the Preparatory Committee on 25 February 2016. The Court is due to come into operation in January, 2017. Does this then provide the solution business requires in Europe?

The answer is no, it does not. This is for a number of reasons. First, patentees can elect to "opt out" of the UPC system. Second, there will be a seven-year "transitional period" during which parties can continue to bring infringement and revocation proceedings of a national EP and an SPC derived from such EP before any of the national courts in the countries designated by the EP. There is provision for a possible extension of that seven year period for up to a further seven years. Third, the UPC only has jurisdiction in the 28 EU Member States. Other EPC Contracting States – for example, Norway, Turkey and Switzerland – are outside the EU and, consequently, not subject to the jurisdiction of the UPC. Fourth, as with any new venture, there will be a period of bedding down the new Federal Court and, hence, a period of uncertainty. For example, will it – at least, initially – be generally a pro-patentee jurisdiction in order to attract business? Looking back, in the early years of the EPC the EPO was, perhaps, somewhat over generous to applicants. Fifth, there will inevitably be a period of forum shopping for the jurisdiction(s) a party believes most likely to favour its case. For example, infringement proceedings may be brought in (i) the Local or Regional Division where the infringement occurred; or (ii) the Local or Regional Division where the Defendant (or one of them) is resident or has its principal place of business; or (iii) the Central Division if the Defendant is based outside the EU. The Central Division is located in Paris (electronics and physics), London (life sciences, chemistry and metallurgy) and Munich (engineering and weapons). Sixth, other uncertainties include whether the generally fast-track procedure set out in the UPC Rules is appropriate for high-value complex technology international patent disputes, the quality of the judges and cost.

Why Arbitration?

There are a number of compelling reasons. First, the old practice of "deep pocket" corporations routinely litigating major patent disputes in both the U.S. and Europe (typically, in one or more of Germany, The Netherlands and the United Kingdom) has reduced in recent years. Why? We believe partly cost but mainly driven by the requirements of business for certainty of outcome within as short a period as possible. Consequently, although the UPC may provide a Federal Court for the 28 EU Member States, it will not provide a global solution. Further, since parties can appeal "as of right" from a Final Decision of the UPC Court of First Instance, and there can also be appeals "with leave" from procedural orders of the Court of First Instance, in a complex matter one is probably looking at a two-year process as a minimum.

By contrast, arbitration offers a single procedure – provision for appeals in an agreement to

arbitrate being very much the exception, rather than the rule – and under the 1958 New York Convention recognition and enforcement of international arbitration awards is available in more than 150 countries worldwide. Further, the grounds for national courts setting aside or refusing to recognise international arbitration Awards are very limited. In essence, to succeed an appellant needs to establish that the Arbitration Tribunal exceeded its jurisdiction or that there was lack of due process in the conduct of the arbitration. An experienced arbitral tribunal is unlikely to allow either ground to occur.

Other significant advantages of arbitration include the ability of the parties to choose arbitrators with relevant experience, rather than find themselves subject to decisions in jurisdictions with no dedicated patent courts or from judges with no significant experience in, or understanding of, patent disputes. Another advantage is the flexibility of the procedure offered by international arbitration in contrast to the varying procedural strictures of national courts.

What types of patent dispute are best suited to arbitration?

While, historically, most arbitrations of patent disputes derive from an agreement to arbitrate – typically contained in licence agreements, joint R&D agreements, outsourcing agreements and the like – increasingly parties are turning to ad hoc arbitration rather than battling it out country-by-country in the jurisdictions of primary importance to the business. Consequently, parties facing multi-jurisdiction infringement/revocation disputes are, more and more, choosing to resolve them by arbitration. A further advantage of arbitration is that rulings on patent validity/enforceability in an arbitration award are binding only *inter partes*, not *erga omnes*. While revoking a competitor's patent in a national court potentially opens the market to all competitors, an arbitration award revoking *inter partes* does not.

A particular area of patent disputes which has seen an increased reference to arbitration in recent years is patent entitlement/ownership disputes. Absent one procedure for resolving such disputes, parties face disputing entitlement country-by-country where the patent(s) in question have been filed/granted. Such disputes typically arise from joint venture agreements, the seconding of scientists between collaborating entities and outsourcing of development to Universities. Another area touched on in the February posting are disputes relating to FRAND (Fair, Reasonable and Non-Discriminatory) royalties for SEPs (Standard Essential Patents). Owing to the difficulties encountered by courts handling such disputes both sides of the Atlantic, increasingly the telecoms sector is turning to international arbitration. Indeed, arbitration rather than national court litigation of these cases has been encouraged by both the European Commission and the U.S. Federal Trade Commission and U.S. Department of Justice.

There are, however, certain areas where patent enforcement in national courts is either probably more effective or the national court provides a unique remedy. In terms of pre-emptive remedies – for example, preliminary injunctions, asset freezing orders etc. – although they are available from arbitral tribunals, to enforce them it may be more efficient to apply directly to a national court. As to unique remedies, the U.S. International Trade Commission (ITC) has jurisdiction to exclude products from being imported into the U.S. which infringe a domestic US patent. In Europe, Council Regulation No.1383/2003 on Border Measures enables National Courts of EU Member States to prevent import into the Common Market of goods from outside the EU which infringe national patents.

Conclusion

Despite increasing harmonisation of patent law – for example, the adoption by the U.S. of the “First to File” rule in the America Invents Act – there remains no global system, other than arbitration, which provides a single solution to multi-jurisdiction patent disputes. Nor is there such a system on the horizon. While the establishment of the UPC in Europe may eventually provide some improvement for patent disputes in the 28 EU Member States, that new Federal System brings with it the several uncertainties identified above and is, of course, limited in its jurisdiction.

With increased use of international arbitration in this sector, provided it continues to deliver sound, effective decisions within a reasonable time frame and at a reasonable cost, it is to be expected that that it will more and more become the procedure of choice for parties in multi-country patent disputes.


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