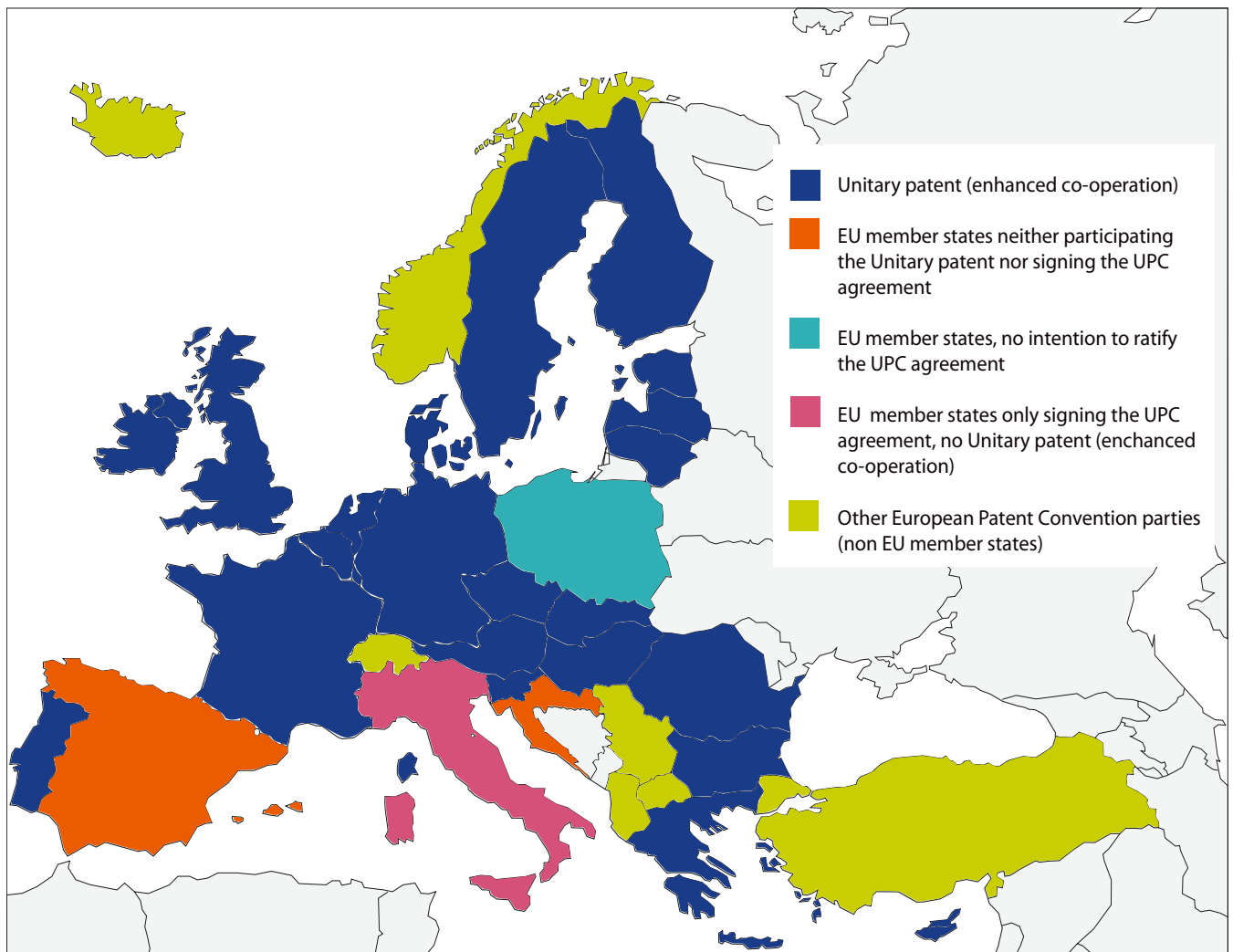


The European Patent Reform

**– a Threat or an Opportunity
for Finnish Companies?**





MORE INFORMATION:

The entire report on the European Patent Reform (in Finnish) is available at: <http://ek.fi/materiaalipankki/julkaisut-ja-selvitykset/>

<http://www.unified-patent-court.org/>

<http://www.epo.org/about-us/organisation/select-committee.html>

<http://www.epo.org/law-practice/unitary.html>

http://ec.europa.eu/internal_market/indprop/patent

Introduction

The European patent system is under reform. In the future, the Unitary Patent will constitute a new alternative to classical European and national patents, and the new Unified Patent Court (UPC) will have exclusive competence to decide on infringement and validity of patents with a unitary effect in all Contracting States. What will this reform mean for Finland? Should Finland ratify the new system or not?

This report on the impact of the reform on Finnish companies was ordered by the Confederation of Finnish Industries (EK). The report was a joint project of the EK and the Ministry of Employment and the Economy. The report steering group also included the sponsors of the project, Finland Chamber of Commerce, Pharma Industry Finland and the Federation of Finnish Technology Industries, as well as KONE Corporation, Nokia Corporation, and Wärtsilä Corporation.

The report was compiled by Bird & Bird Attorneys Ltd. and Boco IP Oy Ab patent attorneys.

The material for the report was collected through a survey conducted mainly among active patentees. In total, 55 companies took part in the survey. Additional information was obtained by conducting interviews with both company representatives and various experts. Their input was invaluable for the drafting of this report. We would like to express our sincere gratitude to all those who participated in the process.

In this summary of the report, we will

- 1) introduce the conclusions of the report (pp. 2–3),
- 2) illustrate the effects of the new system by using company scenarios (pp. 4–5), and
- 3) offer some basic information over the reform especially for those who are not familiar with the patent and court system and the reform (pp. 6–9).

We hope that this report will encourage especially Finnish companies to consider the possible effects of this reform on their business.

The time for discussion is now.

Patent Reform Challenges Finnish Companies

The European patent system is under reform. The companies taking part in the survey, all active patentees, considered the reform to entail several advantages over the present situation. However, Finland's participation in the reform would create additional challenges for companies acting on the domestic market.

At present, Finnish companies may obtain patent protection for their inventions in several European countries by filing a single European patent application. However, the granted European patent has to be validated separately in each country of interest. Patent disputes are adjudicated by national courts, and the effects only pertain to the country in question.

The reform makes it possible for the companies to protect their inventions in a geographically wider area and with lower costs. By registering a Unitary Patent, the patentee will be able to obtain a single patent right in up to 24 EU Member States.

In patent disputes the rulings of the new Unified Patent Court (UPC) are effective in all Member States participating in the Unitary Patent system. This has been expected to lessen the

need to institute separate proceedings over the same matter in different countries.

Each EU Member State may independently decide whether to participate in the system or not. In this respect, the influence of Finland's decision in the matter will be limited to whether the effects of the Unitary Patent and Unified Patent Court extend to Finland or not. Finnish companies will, in any case, be able to utilize the new system outside Finland.

The system will enter into force after 13 EU Member States (including the 'big three' of Germany, France and the UK) have ratified the UPC Agreement. It has been estimated that this will take place in 2016, or at earliest in late 2015.

In Finland, parliamentary proceedings are required in order to proceed with the ratification process.

"Finland should participate, if others participate, too"

A majority of the companies that answered the survey were of the opinion that as compared to the present system, the effects of the reform can be seen as more positive than negative.

In addition, the majority of the participants took at least a somewhat positive view over Finland's participation in the new patent and court system. Asked whether Finland should ratify (make nationally binding) the UPC Agreement relating to the reform, 71% of the respondent companies answered either 'yes', 'probably yes' or 'depends on which other countries have ratified the agreement'. Only 7% of the companies took a negative stand ('no' or 'probably no'). One fifth did not have an opinion at this point.

About half of the companies that answered the survey were of the opinion that the best outcome for them would be if almost all other countries, or at least the ones important for their business, ratified the agreement. Alternatively, many took the view that Finland should postpone ratification until more experience of the new system has been gained.

Many questions remain unresolved, including costs and practices. Even though the respondents were all active patentees, 60% of the companies had familiarized themselves with the reform only a little or not at all, which renders decision-making and expressing their views concerning the matter more difficult. Especially small and medium companies lacked information concerning the patent reform. Only one in ten SMEs had familiarized themselves with the reform well or fairly well.

EU PATENT PACKAGE

The reform of the European Patent System consists of

- the Unitary Patent and
- the Unified Patent Court (UPC)

All EU Member States who are also member states of the European Patent Convention (EPC) may join this system created under the EU framework. However, the system may be freely used by companies from all over the world.

The UPC Agreement has been signed by 25 EU Member States. Spain, Poland, and Croatia have not signed the agreement. Italy has signed the UPC Agreement but does not participate in the Unitary Patent. For the system to enter into force, a sufficient amount of countries has to ratify the agreement.

Patent flood limits the freedom to operate

If Finland decides to ratify the UPC Agreement, the Unitary Patent protection will also extend to Finland. Therefore, a company using the Unitary Patent has no need to separately obtain patent protection for their inventions in Finland.

However, Finland’s ratification decision will not in any major way affect the internationalized companies taking part in the survey. These companies will in any case be able to utilize the new system abroad.

Novel threats relating to the reform also came to light in the present report. With the Unitary Patent, the amount of patents in the participating countries will most likely increase (‘patent flood’). All the patents which are in force on the relevant market area limit the freedom to operate of others. Furthermore, the amount of infringement cases will increase

and the litigation risks become more pronounced as the number of patents increases. This may bring about new threats especially for those Finnish companies who are only active on the domestic market. They would at least have to increase their patent surveillance activities, which would in turn lead to increased costs.

Finland can protect itself from the possible threats by not participating in the new system. However, such decision has been envisaged to entail a political risk.

The freedom to operate of internationalized Finnish companies stays greater if Finland does not participate in the system. Even though this advantage surfaced in the survey, it was not considered particularly significant: the emergence of manufacturing or development paradises was not seen as a realistic alternative.

	OPPORTUNITIES	THREATS
Finland in	A geographically wide unitary patent protection becomes more easily available for Finnish companies. This may encourage Finnish companies to invest in R&D and the protection thereof. Finnish companies may become more internationally-minded in planning their business strategies due to the need to take into account the new Unitary Patents of their competitors.	The amount of patents in force in Finland increases, which results in the limitation of the freedom to operate of the companies acting on the domestic market as well as increases infringement and litigation risks. As an additional threat, the income of the Finnish Patent and Registration Office may decrease and its operational preconditions weaken.
Finland out	Finland might be able to cherry-pick the advantages of the system while avoiding the disadvantages related to the flood of Unitary Patents. Finnish companies would have greater freedom to operate in Finland and a lower risk of infringing the patents of others.	There is a risk that the patent expertise of Finnish companies and their innovation activities fail to develop in the manner required in the international competitive environment, and Finland’s political influence is adversely affected by the ‘free-rider’ approach.

What is the future of Finnish patent expertise?

The companies interviewed considered Finland’s participation in the reform to be important for keeping the Finnish IPR expertise up to par with other countries. If Finland were to participate in the system, Finnish companies would need to start seeing the entire EU as their domestic market. This might encourage Finnish companies to expand their business abroad. Regardless of the decision, internationally-oriented

companies need to familiarize themselves with the new patent system anyway.

On the other hand, it has been speculated that the operational preconditions of the Finnish Patent and Registration Office (PRH) might weaken if Finland decides to participate in the system.

No need to act right away

Many aspects of the reform are still open. These include for instance the costs and the ratification decisions of other Contracting States. Consequently, the writers of this report are of the opinion that Finland could postpone making its

decision into next year (to ratify or not to ratify the new system). At that point, more information will be available to aid in the decision-making process. However, now is the time to start discussing the effects of the reform.

How Does the Reform Affect Finnish Companies?

The reform of the European patent system affects different companies differently. Based on the findings of the survey, this double spread contains imaginary examples illustrating the varying circumstances of Finnish companies.

Scenario 1: A growing Finnish company successfully operating on the international market and specializing in digital media already has a fairly large patent portfolio. The company operates in several European countries. Finland has ratified the UPC Agreement.

In accordance with its strategy, the Finnish company has been carefully protecting its inventions by registering both classical European patents and the new Unitary Patents. The company has opted for a Unitary Patent if it has considered the patent for the invention to be particularly strong and difficult to invalidate.

The strengthening of the patent portfolio by strong Unitary Patents has made finding funding easier. Certain patents are also easy to license when they have a geographically wide scope of protection. The company has validated its classical European patents only in the most important market areas, and has thus not previously engaged in extensive licensing.

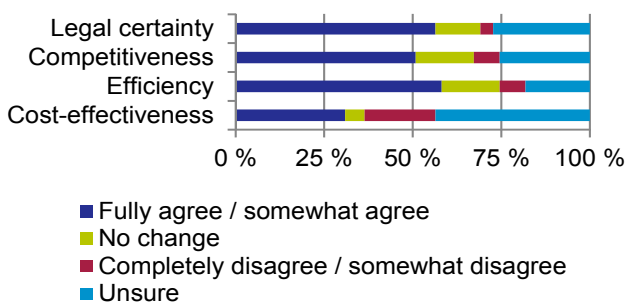
The company has excluded some of its European patents from the jurisdiction of the Unified Patent Court (UPC) after deciding that these patents might be susceptible for the invalidation attempts of competitors.

In other respects, the company considers one of the advantages of UPC to constitute of the fact that the company is now able to obtain an injunction against an infringing party that is enforceable throughout the entire UPC area. However, the company has not yet engaged in litigation. Disputes have been settled.

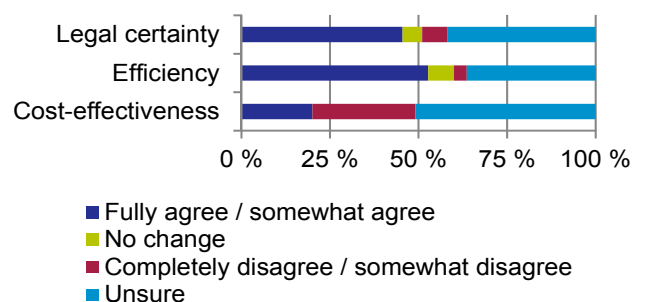
The Finnish company is satisfied with Finland's decision to ratify the agreement, even though Finland is not an important market area to them. This means that the company could now bring an infringement action in front of the Finnish regional division under the UPC jurisdiction for a patent infringement that has occurred in Finland. Since the company's competitors are mainly located outside Finland, Finland's ratification decision has no significant influence on the company's business strategy. The company hopes that the decision will encourage other companies to invest in R&D and adopt more international attitudes.

"For a company actively protecting R&D and its results, the Unitary Patent creates new possibilities for commercialization."

Do you think that the Unitary Patent would increase...



In comparison to the present system, do you think that the UPC would increase...



Scenario 2: A Finnish family-owned component supplier operates in Finland and also exports its products to Russia. The company has no patents of its own. Finland has ratified the UPC Agreement.

The large international competitors of the Finnish component supplier have previously found it unnecessary to protect their inventions in Finland. With the emergence of the Unitary Patent system, they have begun to file for Unitary Patents. After Finland ratified the UPC Agreement, all the new Unitary Patents are also in force in Finland.

When planning its business activities, the component supplier now needs to take into account the new Unitary Patents in its field, since these are also in force in Finland. However, patent surveillance would lead to additional costs, which would in turn diminish the company's profitability.

Also the litigation risk becomes more pronounced. The component supplier receives a letter from a US company with a large patent portfolio. The company accuses the Finnish component supplier of infringing its Unitary Patent and demands that the component supplier purchase

"More patents will be in force in Finland, which might in turn limit the operation of the manufacturing industry."

an expensive license (i.e., a permission to use) to the patent. Failing that, the company will institute proceedings against the component supplier in front of the Unified Patent Court.

The Finnish company does not want to expose itself to the litigation risk, and neither does it want to purchase a license to the patent of the hostile US company. However, even to adequately respond to the warning letter, the component supplier is required to resort to external expert services for instance to find out whether the infringement claims can be substantiated in any way or not.

If Finland had not ratified the UPC Agreement and the patent had not been validated in Finland, the Finnish company supplier would have avoided the infringement claim. In that case, also the manufacture in Finland, along with the component exports to Russia, could have continued, since the Unitary Patent would not be in force in either of these countries.

Scenario 3: A fairly large Finnish chemical industry company supplies its products to a wide European clientele. The company has factories in Finland, Germany, and China. Finland has not ratified the UPC Agreement.

The Finnish company operates in a field in which court proceedings are uncommon. It has been sufficient for the company to protect its inventions in certain important countries, such as Germany. However, the company performs active competitor surveillance for instance in order to avoid infringing the patents of others.

As the company is now expanding its business operations, one of its competitors decides to institute infringement proceedings against the company in front of the UPC in order to hamper the company's efforts. The infringement claim relates to a chemical supplied by the company for the industrial sector in UPC countries. The competitor simultaneously files for an interim injunction against the company's factory in Germany. If granted, the injunction is enforceable in Germany.

"The possibility of obtaining a nearly Europe-wide injunction order is beneficial for the patentee but poses a risk for the alleged infringer."

Since the competitor's patent is not in force in Finland, the Finnish company may continue the manufacture of its product at the company's Finnish factory. Products may be exported from Finland to non-UPC countries. This might in turn provide the Finnish company with the required leverage to negotiate a better licensing or settlement agreement with the competitor.

If Finland had ratified the UPC Agreement, the injunction issued by the UPC could also be enforced against the company's factory in Finland.

It should be noted that the European Patent system has no effect on the operation of the company's factory in China. However, European patents and court decisions affect the selection of countries in which the products manufactured in China may be legally imported.

Unitary Patents Offer Wide Protection

Unitary Patents offer a geographically wide patent protection with just one registration. However, actual savings for companies still remain uncertain. Finland’s ratification decision mainly affects the question of whether the scope of protection of Unitary Patents extends to Finland or not.

At the moment, Finnish companies may protect their inventions in Europe by registering national patents or opting for classical European patents granted by the European Patent Office (EPO). A classical European patent is a bundle of national patents that are based on the same patent application. After being granted, a European patent has to be registered separately in each of the countries in which the patentee wants to protect his invention.

Now some of the EU Member States are in the process of adopting a new regional, cross-border alternative, the so-

called ‘Unitary Patent’. The reform aims at providing a simplified, cost-effective and competitive option that also serves to enhance legal certainty.

The Unitary Patent will not become compulsory. Instead, Finnish companies will in the future be able to decide whether to seek protection for their invention by applying for a Unitary Patent, a classical European patent or a national patent. This decision can be based on for instance the compliancy of the offered protection with the company’s business strategy.

Unitary Patents offer simpler registration of patent protection

The process of applying for a patent in Europe will remain unchanged. Applications for European patents are still filed with the EPO. The change brought about by the Unitary Patent only extends to the national validation of a granted European patent. A Unitary Patent results in a wide and unitary protection that is in force in all the EU Member States participating in the enhanced cooperation. In comparison with the present system in which the patentee has to register the patent separately in each country, the reform would result in a considerable simplification of the process required after the grant of the patent.

For the patentee, the Unitary Patent entails clear advantages. Patent protection is unitary in all respects, which

facilitates the required administrative process. This means that annual fees can be paid and assignments completed in one action. This will facilitate especially the interpretation of the right to deny provided by the patent, since the scope of the patent and its effects are equal in all Contracting Member States.

Even though the registration of a Unitary Patent will be less expensive than the present cost of presently validating a patent in 24 EU Member States, the amount of annual fees payable for a wide geographical protection will most likely be relatively high. However, the level of annual fees has not been set yet.

CLASSICAL EUROPEAN PATENT	UNITARY PATENT
No need to apply for a national patent in all countries of interest, but still has to be validated separately in each country.	Covers a geographically wide area; patent is in force in all participating EU Member States or in none of them.
Ownership can be divided on a country-by-country basis between several patent proprietors, but the system is administratively heavy and all assignments have to be registered separately in each country.	The same owner in all countries, a simple system in which assignments can be registered in a centralized manner at the EPO. Ownership cannot be divided on a by-state basis.
The scope and effect may vary between countries; may result in erroneous evaluations of freedom to operate.	Results in a unitary protection and identical claims in all countries, with the scope and effect also being the same.
Cannot be nullified in a centralized manner. (This will change after the transitional period.)	Can be nullified in a centralized manner; grounds may include for instance prior national rights.
There is no need to pay annual fees in countries in which protection is no longer needed. However, annual fees have to be paid separately in each country in which the patent is in force.	Annual fees can be paid in a centralized manner by one transaction, but the costs resulting from annual fees cannot be adjusted by removing countries from the patent’s scope of protection.

Machine translations of patents to be used

The plan is to utilize machine translations in the Unitary Patent system. Because the required system is still under development, a transitional period of six to twelve years has been agreed upon with regard to translations. Even during the transitional period, a translation of the granted patent into some other language than the original filing language has to be submitted to the EPO in connection with the request to register the Unitary Patent. One of these languages is always English.

In case the procedural language is French or German, an English translation has to be submitted. If the procedural language is English, a translation into any of the official languages of the EU Member States, e.g. Italian, Spanish, or Finnish, is sufficient. In the future, a translation of the claims into two other languages will still have to be submitted to the EPO. In case of a conflict, the language in which the patent has been granted (English, German, or French) is decisive.

After the transitional period, there is no need for the patentee to translate the patent. A Finnish company may therefore be required to rely on machine translations or to translate the specification in order to find out whether a company is infringing a patent filed in French or German.

Furthermore, proceedings against a Finnish company may be instituted based on an alleged infringement of a Unitary Patent granted in French or German. In case of a conflict, a Finnish company could in any case demand that the patent be translated in its entirety into the official language of the Member State in which the alleged infringement took place or, alternatively, in which the place of residence of the infringer lies. If the Court so requests, a full translation of the patent into the procedural language has to be submitted to the Court. The patentee shall be the one liable for the costs of such translations.

Translation savings may be lower than expected

The patent reform has been justified largely by statements referring to cost savings. Since the application process of a Unitary Patent and a classical European patent are identical, cost savings are only obtainable after the patent has been granted. The European Commission has referred to reduced translation costs, which would according to the Commission be lowered from about 20,000 euro to about 2,400 euro.

Because the so-called London Agreement already reduced translation costs, the actual savings from the present re-

form may be lower than estimated. These would become more pronounced if the large market areas not participating the London Agreement, such as Spain, Italy, and Poland, were to take part in the new system. The savings related to translation costs are furthermore reduced by the fact that during the transitional period, the patentee is obliged to submit a translation of the granted European patent into some other language than the procedural language in connection with the request to register the Unitary Patent.

Inventions may become easier to commercialize in Europe

The effects of the Unitary Patent for Finnish companies depend largely on whether the company in question is an active patentee protecting its inventions in a wide geographical area, or a non-patenting company acting on the domestic market. The effects may also vary in different fields of technology, even within the same company.

For most companies, protection is only needed in a few countries. If it is possible to obtain patent protection in a wide geographical area with a small additional investment and using a simplified registration process, this would most likely be considered a welcome improvement by most patentees. The new system might prove advantageous for SMEs aiming at the international market and investing in R&D and innovations, or for Finnish companies already operating on the international market, needing geographically broad patent protection.

The Unitary Patent might improve the companies' chances of selling their patent portfolio, licensing their patents and obtaining risk financing. At the same time, the companies might be willing to pay slightly more for this protection. Aided by the wider geographical patent protection, monetary gains could be expected from the commercialization of inventions.

The international companies participating in the survey did not consider Finland to be a particularly important market area. Consequently, from the perspective of the respondent companies, Finland's ratification decision would not necessarily have a significant impact on the benefits obtained. The companies could in any case protect their inventions either by registering national patents or by validating their classical European patents in Finland.

New Court with Cross-Border Jurisdiction

In the new Unified Patent Court, patent disputes are adjudicated in a centralized manner with respect to all the participating EU Member States. Should Finland decide to ratify the agreement, the Court's decisions will become binding in Finland, as well. A company acting in Europe may in any case utilize the new court outside Finland.

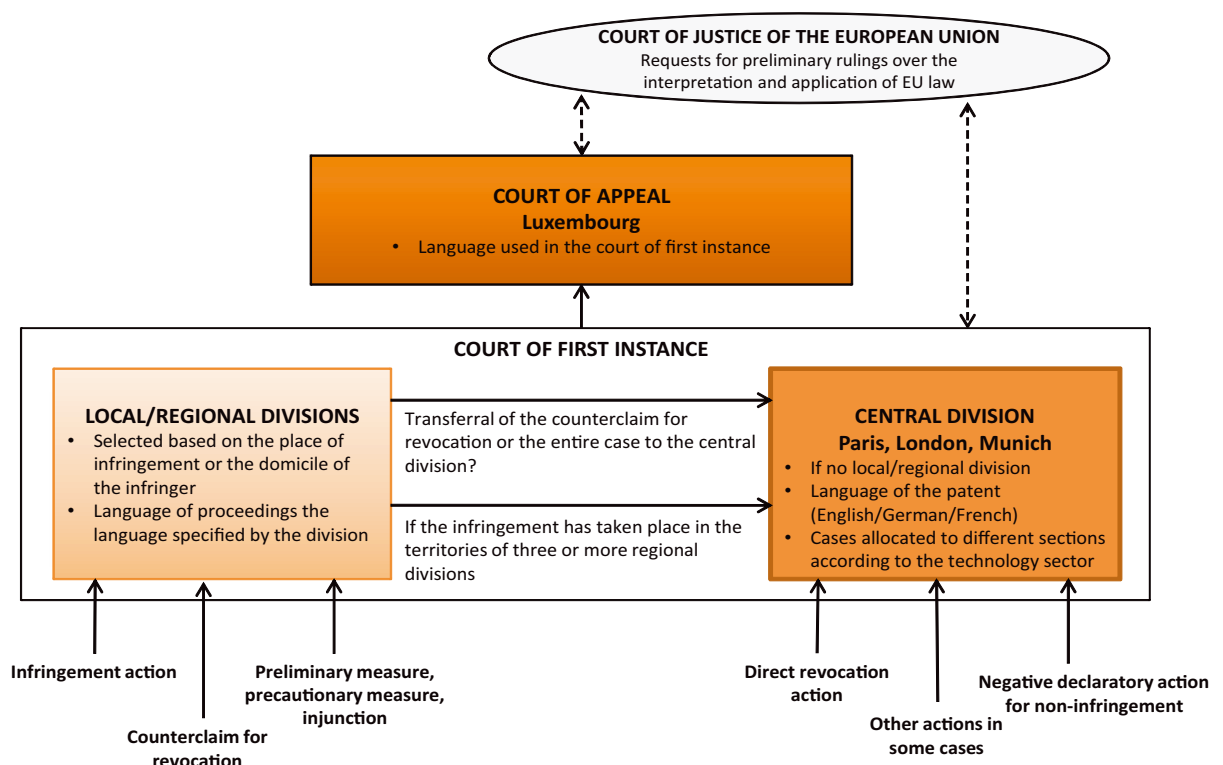
In accordance with the purpose of the Unitary Patent, the granted patent will enter into force simultaneously in all the participating EU Member States. Furthermore, the Unified Patent Court (UPC) will enable the adjudication of civil disputes relating to Unitary Patents or classical European Patents in front of a single court and with unitary effects in all these countries.

For instance an injunction issued by the UPC in connection with an infringement case means that the infringer has to stop all commercial activity falling under the scope of the patent in all the participating EU Member States. On the other hand, if a revocation action proves successful, patent protection ceases simultaneously in all the participating EU Member States.

A local division to be established in Helsinki if Finland participates

If Finland ratifies the UPC Agreement, a local division of the court of first instance will most likely be established in Helsinki in connection with the Market Court. This means that disputes relating to Unitary and European Patents falling under the UPC's jurisdiction will also be adjudicated in Finland. The

proceedings may be conducted in Finnish, Swedish, or English. It should be noted that if a Finnish company has business activities in other UPC countries, proceedings may be instituted against it in a foreign division. However, this will be the case regardless of whether Finland ratifies the agreement or not.



One of the aims of the reform has been to harmonize and simplify the presently rather fragmented patent court system based on national courts. However, also the new system has already been criticized for its over-complexity.

Stakes are high in UPC disputes

A majority of the companies participating in the survey were of the opinion that, as compared to the present system, the reform leads to increased legal certainty and efficiency. However, many of the participants did not have much practical experience in patent litigation. In the UPC, the stakes in an individual case are high, which may also increase the risk associated with litigation. In the new court system, the patentee may choose the local or regional division of the country in which to institute proceedings. There is thus a risk that some divisions might try to attract litigation by adopting as patentee-friendly practices as possible. The position of the opposing party, *i.e.* the alleged infringer, has therefore been anticipated to weaken.

The significance of the risks related to the UPC may vary depending on company strategy, the branch of industry in question and the value of the individual patent.

If Finland were to join the UPC area, a Finnish company could institute proceedings against a foreign competitor in front of the UPC in the Finnish local division, thus possibly obtaining an injunction order relating to the entire UPC area against the competitor, provided that the competitor either acts in Finland or that the infringement can be considered to have occurred in Finland. The Court of Appeal is located in Luxembourg.

Should Finland decide not to join the UPC area, an international Finnish company with significant manufacturing activities in Finland could partly avoid the risks rising from geographically wide injunction orders issued by foreign divisions. In that case, rulings issued by the UPC would not be enforceable in Finland. However, the companies participating in the survey did not emphasize this aspect to any significant degree.

The UPC also adjudicates disputes relating to the classical European patents. Many companies are expected to try to avoid the risk of patent invalidation by excluding their classical European patents from the UPC jurisdiction (opt-out), at least in the beginning. This is possible during the seven-year transitional period.

During the transitional period, companies can make various strategic choices. Even if a company decides to exclude its European Patents from the UPC's jurisdiction, it may at any point – even after the transitional period – reverse this exclusion on a patent-by-patent basis.

Little attention has been paid to the fact that in addition to the Unitary Patents, all litigation over the classical European Patents will in the future also be conducted in front of the UPC, if the country in question has ratified the UPC agreement.

MANY QUESTIONS STILL OPEN

The present paper is a summary of the report on the reform of the European patent system. The report examined the impact of the reform on Finnish companies based on a company survey. It covered two alternative instances: a) Finland ratifying the agreement, and b) Finland not ratifying the agreement.

The report concentrates on the main aspects of this reform. Many important details were still open at the time that the report was compiled, and thus had to be excluded from it.

The companies taking part in the survey noted that it is difficult to form a conclusive opinion over the Unitary Patent or the Unified Patent Court, since many aspects of the reform are still open. For instance the costs are still to be determined. These will be essential factors in determining the popularity of the system.

Furthermore, it is not yet known which countries will participate in system. For instance Spain, Italy, and Poland have already decided to remain outside the reform in one way or another. Many of the companies taking part in the survey considered it important to have as wide geographical coverage as possible.



Confederation of Finnish Industries EK
PO Box 30, (Eteläranta 10), FI-00131 Helsinki, Finland
Tel. +358 9 420 20
www.ek.fi

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