# IP: The Way Forward

The United Kingdom proposes that the way forward is to separate patent rights from other IP rights. We propose to deal with patents first; we can consider other IP rights at a later stage. We suggest the following text:

1. **In proceedings concerning the grant, validity, invalidation or revocation of a patent, the courts of the Contracting State in which, or for which, the patent was granted shall have exclusive jurisdiction; provided that, where, under an international instrument in force in the Contracting State in question, some other court or courts replace the national courts with regard to some or all of the above matters, that court or those courts shall have exclusive jurisdiction to the extent to which they replace the national courts. In this paragraph, "court" includes any organ or entity empowered to give binding decisions on legal controversies; and "international instrument" means an international convention or a measure adopted by an organization established by treaty.**

2. **Paragraph (1) shall not apply where one of the above matters arises as an incidental question. For the purpose of this Article, an incidental question is a question which is not the main issue in the action but which has to be decided in order to reach a decision on the main issue.**

3. **A court shall not entertain proceedings for the infringement of a patent unless—**

   (a) **the infringement took place within the territory of the State before the courts of which the action is brought; and**

   (b) **the patent infringed was granted by, or for, that State.**

**Notes**

1. Article 12(5) of the previous text should be rejected.

2. Article 12(6) of the previous text has been incorporated in the above text as paragraph (2). It would, for example, cover the situation where the validity of a patent arose in proceedings concerning a patent-licensing agreement.

3. A provision dealing with patents will be needed in the "disconnection" clause. The United Kingdom intends to propose that a court in a Brussels/Lugano State will apply the equivalent Brussels/Lugano provision, and not the above provision, whenever the patent was granted by (or for) a Brussels/Lugano State. This would be the case irrespective of domicile.

4. **Terminology**: in English-speaking countries, "grant" is the correct term. If the correct term in French is "*inscription*", this should be used in the French text. In English, "nullity" is incorrect in this context. We prefer "invalidation". If the correct term in French is "*nullité*", that should be used in the French text. In the United Kingdom, the normal term to describe a decision to invalidate the grant of a patent, is "revocation". We do not believe that the inclusion of this term changes the meaning; it simply makes it clearer in those parts of the English-speaking world that apply this terminology. Our French-speaking colleagues may feel that "*nullité*" translates both "invalidation" and "revocation".

5. **Meaning of Words and Phrases.**

(a) The words "or for which" in the phrase "Contracting State in which, or for which, the patent was granted" are intended to cover the case where a patent is granted centrally for a group of States, as in the case of the European Patent Convention or a future Community Patent Regulation.

(b) The definition of "court" is intended to include a national or international Patent Office.

(c) The words "measure adopted by an organization established by treaty" are intended to cover a regulation of the EC. They would of course apply equally to any measure adopted by any international organization.

**6. Paragraph 3(a)**

It might be necessary to include a statement as to when on-line activities are to be regarded as taking place within the territory of a State.

**MEMORANDUM**

1. This memorandum is concerned only with the interaction between the Hague Convention as currently drafted and patent rights. This was a central topic discussed at the recent meeting of experts in Geneva. As the minutes of that meeting record:

> *"... a majority of experts ... expressed their support for keeping IP rights on the agenda and including these rights in the scope of the draft Convention. Their main arguments in favour of retaining IP in the draft Convention were the fact that IP plays an increasingly important role in practice and that, because IP questions are so closely linked to other questions such as contract law or commercial law, carving them out of the draft Convention would lead to great difficulties in applying the Convention."*

2. The purpose of this memorandum is to set out in writing the concerns which the British delegation continue to have. Those concerns are directed particularly at the current proposals as they relate to patent rights although some of the issues raised affect other intellectual property rights as well.

3. No one contests the importance of IP rights and, in particular, patent rights. They are generally regarded as being a significant factor in the development and health of high technology industries. The question therefore is not whether such rights have value but whether implementation of the Convention in its current form would benefit or undermine them. This should be assessed calmly and not as a matter of dogma. If the Convention undermines IP rights, this will be to the long term commercial disadvantage not only of the rights owners (and in particular patent owners) but also of the States which sign up to the Convention. Furthermore if such is the result, it will not be possible for those who have participated in drafting the Convention to claim that they were ignorant of the significant risks that they were inviting their respective States to take.

4. To illustrate the effect that provisions like those contained in the current draft of the Convention would have in practice, it is necessary to have in mind a typical case of patent infringement. For this purpose, we can consider a case in which a German pharmaceutical company claims to have invented a new drug and has obtained national patent protection under the laws of most of the major trading countries in the world. To make the example manageable, assume that patents have been obtained throughout the European Union and in the United States, Japan, China, Australia and Korea. A competitor sells an allegedly infringing product in all those countries through local agents or subsidiaries. Such sales therefore include sales through an agent in Germany.

5. In accordance with the present terms of the draft convention, the German company can sue the German agent which is supplying the allegedly infringing product in Germany (see Articles 3 and 10). In such proceedings in Germany, the German

patent owner can also sue other defendants (Article 14). The purpose is to enable all actions for patent infringement to be conducted before one court. The decision of that court will then be recognised in the courts of signatory countries (in this case, the United States, Japan, China, Australia and Korea). According to Article 14.4 only infringement will be determined by the German court. Validity of the national patents is reserved to the national courts of the countries of registration. The German court will determine validity of the German patent, the Japanese courts will determine validity of the Japanese patent, and so on. The question is, how will this arrangement work in practice?

6. To understand the practical consequences, it is necessary to have in mind a few essential features of the patent law of all countries. They are as follows

   a. A patent is in two parts. The first is called the specification. It is a description in technical language of what the invention is and how it works. The second part consists of a series of "claims". The claims define or, in some systems give an indication, of what the monopoly is that the patent owner asserts. Once again these are written in technical language.

   b. In all but the most exceptional cases, a patent will contain numerous claims. These are of overlapping and cascading scope. The reason for this is that some claims may be invalid (for example because they cover something old and known). It is therefore in the patent owner's interest to have a variety of claims so that if some of them are invalidated, others may still survive. Very often there are 10 or more claims at the end of a patent (each of different scope). Not infrequently there are 20 or 30 claims. Sometimes there are very many more. (In a case being litigated in England at the moment, the patent has over 240 claims).

   c. In nearly all cases, an infringer will be alleged to have infringed more than one claim. In some cases, he will be alleged to have infringed all the claims.

   d. Because the laws of different countries are different and the patent offices of different countries act independently of each other, the specification and claims of equivalent patents in different countries are quite different from each other. Not only are they linguistically quite different, they also normally have entirely different claims. So the scope of the claims of equivalent patents in different countries are quite different.

   e. There can only be one scope of the monopoly granted by a claim. It is a fundamental principle that the scope of a claim is the same both for infringement purposes and for invalidity purposes. For instance, if a competitor made a particular product before the patent's date, and that product is within a claim, then that claim must be invalid. If the competitor only makes the product after the patent is granted then, because it is within the claim, the competitor infringes.

7. The issues raised by the current proposals can conveniently considered under the following headings:

   a. The task facing a national court which is dealing with the infringement issue

   b. Recognition in a receiving State of a decision on infringement given by the court in another State

   c. The effect of treating nullity/invalidity separately from infringement

   d. The reasons advanced for the need to include these rights within the convention.

**a. The task facing a national court which is dealing with the infringement issue**

8. Assume that in the type of case set out above, the German patent owner wishes to sue in Germany in respect of infringements in Germany, the United States, Japan, China, Australia, and Korea.

9. First, because it is impossible to tell in advance of a determination of validity which of the claims of the various patents are invalid, it must be assumed that some or all of them will survive attack. In order to decide the issue of infringement, the German court will have to decide on the scope all the claims in each patent which the patent owner alleges are infringed. This will mean all or most of the claims in each of the patents. The German court will have to apply the applicable laws relating to each patent. It will have to apply United States law to decide the scope of the claims (perhaps 10 or more) in the American patent, Japanese law to decide the scope of the claims (perhaps 10 or more) in the Japanese patent and so on. In each case, the scope of the claims will have to be construed in the light of the technical content of the relevant patent specifications – all of which will be different.

10. Furthermore in seeking to construe the foreign patents it will have to apply all the applicable foreign law. It is notorious that the law of construction of patent claims differs from country to country. Even within the Members States of the European Patent Convention, the differences are pronounced. This means that even claims with the same wording give rise to different width monopolies in different countries. A national court which has to decide the issue of infringement in accordance with different applicable national laws would have to understand and apply these different laws.

11. The differences between the law of construction is even more pronounced as between, for example, European countries and the United States. Not only is the relevant date for construing United States patents quite different to the date for construing patents in other countries in the world (America has a 'first to conceive', not a 'first to file', law) so that the prior art is frequently quite different, but it also has a different law of 'technical equivalents' and also a highly developed law of file wrapper estoppel. For the purpose of this memorandum we consider only the latter.

12. In determining what the claims of a United States patent means, defendants frequently present the court with copies of all the correspondence which passed between the patent owner and the US Patent Office ('USPTO'). This is done for the purpose of persuading the US court that a narrow construction of the patent claims was advanced by the patentee to enable him to secure registration of his patent and that, therefore, the same narrow construction should be accepted in deciding infringement. (i.e. he is estopped from arguing for a wide monopoly because of what he said to the USPTO). To understand the correspondence passing between the patentee and the USPTO it is necessary not only to know the relevant US law of patent validity, but also to have regard to the technical prior art which the USPTO was relying on to challenge the validity of the patent application. Since the date of a US patent is different to the date of patents in other countries, this prior art is frequently different to the prior art in all other countries. Presumably, in the example set out above, the German court will therefore have to apply US law of file wrapper estoppel and will have to accept full disclosure of the US Patent prosecution history, have regard to US law of validity, construe an English language specification and English language claims which are different to their German equivalents and have regard to prior art which is different to that available in any other country. In much the same way, the German court will have to apply Japanese law to construe the technical nuances of a Japanese language patent with Japanese language claims which are different to their equivalents in the German patent. Similar exercises will have to be undertaken in respect of each foreign patent in issue.

13. Most judges would consider this a daunting task.

**b. Recognition in a receiving State of a decision on infringement given by the court in another State**

14. If the German court were to determine that the American, Japanese, Chinese, Australian and Korean patents are infringed, it could issue a judgement to that effect and order the infringement to cease. Presumably the American, Japanese, Chinese, Australian and Korean courts would have to recognise and enforce that judgment. the result will be that an American court will have to recognise and enforce a judgment of a German court which has held that an American company has infringed an American patent in the United States.

15. This same principle would have to work the other way round. The current draft of the Convention allows patentees in effect to choose to litigate multinational infringement in their domestic courts, because there will usually be a subsidiary or agent of the defendant operating there. Accordingly it must be assumed that American patentees would tend to ask US courts to determine infringement of US and foreign patents (perhaps using juries). The foreign courts would then be required to enforce the US judgments. Similarly foreign courts would have to enforce judgements of Chinese courts obtained at the suit of Chinese patentees, of Japanese courts obtained at the suit of Japanese patentees and so on. Once again, this can be illustrated by an example of the type of thing that can happen in practice:

> A Germany company manufactures a new product in Germany. Its subsidiary in the US sells the products in the US and its Japanese subsidiary sells them in Japan. A US company believes the German product infringes its US patent (it also has a German equivalent patent). It sues the US subsidiary before a Jury in Texas. It joins the parent German company, under Article 14(1) of the current draft, and claims that the latter's activities in Germany infringe its German patent. Similarly a different company in Japan believes that the German product infringes its Japanese patent and it sues in Japan. Once again under Article 14(1) it also joins the German parent in respect of alleged infringement of the equivalent patent in Germany. If the US and Japanese courts hold that there has been infringement in Germany, German courts would have to recognise those judgments, even if they believe that the US and Japanese courts have misunderstood or misapplied German patent law. The German courts would then be forced to stop the German parent company's German production line.

16. It is likely that some States will be unenthusiastic about allowing foreign courts to order the closure of a domestic manufacturer, which is inherent in the current draft convention.

17. There may be other problems particularly in relation to the United States of America. If the foreign court were to decline to apply the law of file wrapper estoppel, it is not clear whether it could be argued on constitutional or other grounds that the US courts should not enforce the judgment. It also is not clear whether there would be problems under US law in trying to enforce a foreign judgment against a US citizen or company which had not been offered the opportunity of a jury trial in the foreign court.

**c. The fact that the issues of infringement and validity will be split will also have important effects.**

18. First, it will be recalled that the scope of the monopolies created by a patent must be the same for the purpose of determining validity and infringement. Because of this, in

the overwhelming majority of countries, issues of validity and infringement are always tried by the same court at the same time. This avoids the very real risk of inconsistent judgments on the central issue of scope. The current draft of the treaty requires the acceptance of an approach which has been rejected in the patent laws of most countries.

19. Secondly, it can be assumed that a company which has infringed a patent will use the law to frustrate the patent owner's attempt to stop his illicit competition. This is the common experience of those who are familiar with patent litigation. The current draft convention will help the infringer to achieve this result. Consider again the example of the group of companies sued by a German patent owner in a German court. Assume that the German court, having considered the various foreign patents in accordance with their respective patent laws, decides that each of the foreign patents is infringed in its territory. The German court therefore gives a judgment requiring the infringer not to infringe. No such order can be enforced in any foreign court unless and until the local patent has been held to be valid. The result will be that the infringer will refrain from attacking validity in each of the foreign courts unless and until he has been finally held to infringe in Germany. Then, and only then, will he attack the validity in the foreign courts. The result will be that the enforcement of the patentee's rights will be delayed, probably by years. In the case of patents for pharmaceuticals, for example, this could prove a significant problem. Because of the time taken to achieve regulatory approval, new pharmaceuticals are rarely put on the market until the last few years of the patent's life. Those years therefore become critical to the ability of the pharmaceutical company to recover its investment in research and development for new drugs. On the present proposals it is likely that in some, perhaps many, cases pharmaceutical patents will become, from a practical point of view, unenforceable. As pointed out in this paragraph, the convention will make it easy for a distributor of unlicensed pharmaceuticals to fend off final determination of liability until after the relevant patents have expired. Although he may eventually have to compensate the patent owner financially for his infringement, the patent owner will be deprived of his most important weapon against unlicensed competition, namely the ability to exclude such competition from the marketplace during the last few years of the patent. It may be that in some countries, interim orders may be made pending the determination of patent validity, but it is not at all clear that this approach would be adopted by all or most national courts.

20. It might be said that it would be possible for the patent owner to avoid these problems by chosing to litigate separately in each country. However there are two comments which could be made to any such suggestion. First, it is hardly a recommendation for the Convention in its current form that predictable problems could be avoided by litigants chosing not to use its provisions. Secondly, the patent owner would not know in advance whether this type of delaying tactics would be adopted by the defendants. It follows that he would have to avoid the problem preemptively. In other words the risk of such tactics being deployed by the defendant might force him to avoid using the Convention.

21. Thirdly, in some, but not all, countries it is possible to offer amendments to the claims of a patent in the course of invalidity proceedings. In the United States there is no

right to amend, but the patent owner can ask for a "re-issue" which means a new patent with different claims. Assuming a foreign court amends the claims held to have been infringed or re-issues, is the original judgment (which was based on claims which no longer exist) enforceable? If, as seems likely, it is not, which court now has to consider the revitalised issue of infringement?

22. Fourthly, consider a fairly common example of a number of different companies making an unlicensed copy of a patented pharmaceutical. The patent is owned by a German company. The sources of the unlicensed copies are in the United States. One of these products is sold not only in the United States but also in Germany. Infringement proceedings are brought in Germany both in respect of the German sales and in respect of the United States sales made by members of the same group of companies. The German court, applying its understanding of United States law, holds there to have been infringement of the United States patent in the United States. However an identical product but from another manufacturer is only sold in the United States. Infringement proceedings are brought in respect of this product in the United States (there being no sale of it outside that country). The United States court holds there to have been no infringement. The result will be that there will be inconsistent decisions in relation to identical products in the United States. Does the company which has been held to infringe in the United States by the German court have the right to sell the identical product derived from the other source which has been held not to infringe by the United States courts?

**d. The reasons advanced in support of the current draft of the convention.**

23. The minutes to the Geneva meeting record that those present believed that IP questions are so closely linked to other questions such as contract law or commercial law, carving them out of the draft Convention would lead to great difficulties in applying the Convention.

24. We think this may well over-state the position. The issue of patent infringement and validity rarely arises in contract and commercial law disputes. This is not a matter of theory but practical experience which would be confirmed by consulting experienced patent litigators. The majority of cases in which infringement and validity of IP rights arise are disputes between rights owners and unlicensed competitors. In such actions there is no contract issue involved.

25. In any event, whatever the form the Convention takes, there is no reason why the normal rules of jurisdiction should not apply in those cases where the issues of validity and infringement arise as incidental questions in a commercial dispute. In such a case the decision of the court would be binding inter partes. However this should not determine whether 'pure' infringement and invalidity actions should be dealt with as they are proposed to be under the current draft.

HL - 09/03/01