

ORAL HEARING ON THE DRAFT RULES OF PROCEDURE OF THE UNIFIED PATENT COURT

Comments of the Industry Coalition on the UPC Rules of Procedure

26 November 2014

ActoGeniX

adidas
GROUP

OI AFDEL
Les éditeurs de logiciels
et solutions Internet



ARM

BlackBerry

BULL

BROADCOM

CISCO



Deutsche Post DHL

ESIA
European Semiconductor Industry Association

facebook

Google



intel

LIBERTY GLOBAL

Microsoft



SIB
SYNDICAT DE L'INDUSTRIE
DES TECHNOLOGIES DE L'INFORMATION

TELECOM
ITALIA

Table of Contents

1.0	INTRODUCTION	2
2.0	RULE 118.2: PERMANENT INJUNCTIONS	2
2.1	Overview.....	2
2.2	Compliance of Rules with Agreement	3
2.3	Compliance of Rules with Enforcement Directive	4
2.4	Suggested Amendment.....	5
3.0	BIFURCATION: RULE 40	6
3.1	Overview.....	6
3.2	Suggested Amendment Options.....	7
4.	CONCLUSION	8
	APPENDIX A: LIST OF COALITION PARTICIPANTS	9

1.0 INTRODUCTION

We, the undersigned organizations, are a group of global innovators and users of the European patent system.¹ We are grateful for the opportunity to participate in the Preparatory Committee’s oral hearing on the rules of procedure for the unified patent court (“Rules”). In this submission, we provide our reasoned view on two critical issues arising from the draft #17 of the Rules: permanent injunctions and bifurcation. To assist the Preparatory Committee, for each issue we first explain our concerns about the operation of the relevant rules and provide justification for our recommended changes illustrating how our proposals address these concerns.

2.0 RULE 118.2: PERMANENT INJUNCTIONS

2.1 Overview

This section addresses the proposed deletion of Rule 118.2 of the draft Rules of Procedure, reviews the explanatory remarks for that deletion, and recommends appropriate changes bearing in mind the binding nature of the Unified Patent Court Agreement (“Agreement”) and the EU Enforcement Directive (“Enforcement Directive”). The Coalition's suggested changes are designed to ensure that the Court will apply a proportionality test for issuing injunctions that takes account of and gives the appropriate weight to all relevant facts and circumstances, so that the enforcement of intellectual property rights is proportionate to the value of the patented invention and to safeguard against litigation abuses. We set out the deleted Rule 118.2 and comments below and then explain our recommended changes to both.

Text of Draft #17 of the Rules	Explanatory Remarks
118.2 Without prejudice to the general discretion provided for in Articles 63 and 64 of the Agreement, in appropriate cases and at the request of the party liable to the orders and measures provided for in paragraph 1 the Court may order damages and/or compensation to be paid to the injured party instead of applying the orders and measures if that person acted unintentionally and without negligence, if execution of the orders and measures in question would cause such party disproportionate harm and if damages and/or compensation to the injured party appear to the Court to be reasonably satisfactory.	Rule 118.2 has been deleted. This provision had subjected the order of alternative measures, i.e. compensation instead of orders and measures referred to in paragraph 1, to a number of requirements which would have to be cumulatively met. It was felt that such a scenario would be difficult to imagine in particular where an infringer acted not only unintentionally but also without any negligence and that therefore the provision could in practice hardly apply. The deletion of the wording which stems from Article 12 of the Enforcement Directive 2004/48/EC is in line with EU law since the directive does not make implementation of this provision an obligation of MS (“Member States may provide”). Where the Court finds an infringement of a patent it will under Article 63 of the Agreement give order of injunctive relief. Only under very exceptional circumstances it will use its discretion and not give such an order. This follows from Article 25 of the Agreement which recognizes the right to prevent the use of the invention without the consent of the patent proprietor as the core right of the patentee. When exercising this discretion the Court can also consider the use of alternative measures.

¹ A full list of coalition participants is provided in Appendix A.

2.2 Compliance of Rules with Agreement

Article 41(1) of the Agreement states that the Rules must comply with the Agreement. A number of Articles of the Agreement are relevant to the question of whether the Court has discretion to grant permanent injunctions. First, Article 41(3) states that the Rules,

“...shall ensure a fair balance between the legitimate interests of all parties. They shall provide for the required level of discretion of judges without impairing the predictability of proceedings for the parties.”

The fair balance set forth in Article 41(3) applies to all the Rules, including those pertaining to injunctions. This is re-enforced in Article 42(2) which is categorical that:

“The Court shall ensure that the rules, procedures and remedies provided for in this Agreement and in the Statute are used in a fair and equitable manner and do not distort competition.”

Underlining that “remedies... are used in a fair and equitable manner”, Article 63 expressly gives the Court discretion in granting an injunction by the use of the word “may” and not “shall” (as used in other Articles), as follows (emphasis added).

“ARTICLE 63 Permanent injunctions

(1) Where a decision is taken finding an infringement of a patent, the Court may grant an injunction against the infringer aimed at prohibiting the continuation of the infringement. The Court may also grant such injunction against an intermediary whose services are being used by a third party to infringe a patent.”

For the Rules to comply with the Agreement, the Court is obliged to consider remedies on a fair and equitable basis and the Court has the discretion, not the obligation, to grant injunctions. The Agreement’s assumption that the Court will have this discretion, aside from any overarching discretion under the Enforcement Directive (where appropriate), allows courts to consider all factors in assessing what is fair and what is equitable.

The Coalition agrees that injunctions are often appropriate remedies in patent cases, but not every case warrants the issuance of injunctive relief. Injunctions can be used in patent cases to disrupt business unfairly and to extract excessive royalties. Threatening or imposing injunctions can be abusive in cases where the injunction is a disproportionate remedy for the harm caused by the infringement, for example where the accused technology is an insignificant part of the product that would be enjoined, monetary remedies are appropriate in view of the character and/or licensing practices or obligations of the patent holder, the injunction would cause serious harm to public health or security, and/or there are other relevant circumstances. We offer as examples two non-exhaustive scenarios in which an injunction may not be proportionate given the circumstances:

1. Where the relevant invention is a small or insignificant infringing aspect of a larger product. Here the patentee’s rights need to be balanced against the rights of the manufacturer of the composite product and the harm caused to the consumer by the removal of the composite product from the market. For example, when the patented invention is a minor feature on a laptop or a cell phone, which contains many additional components and potentially thousands of other features unrelated to the asserted technology, removal of the entire product from the market may constitute a disproportionate remedy.

2. Where the patent holder has a demonstrated history of seeking or offering non-exclusive licenses to the patented invention (as is frequently the case with non-practicing entities) and thereby established that a monetary remedy is adequate.

The coalition is concerned that the explanatory remarks for the deletion of 118.2 provided with draft #17 of the Rules might be later misunderstood as suggesting that the Agreement (and the Rules) provide that the Court is only entitled to refuse an injunction under “very exceptional circumstances”. The explanatory remarks improperly suggest an entirely new and unsupported restriction on the exercise of discretion afforded by Article 63 of the Agreement. There is no such fettering of the Court’s discretion in the Agreement. Instead, the Court must apply its remedies with fairness and equity. With respect, the Coalition believes that the commentary should not express views that limit the discretion the Court is afforded especially in light of the multiplicity of factors that the Court must take into account when applying its discretion.

2.3 Compliance of Rules with Enforcement Directive

In addition to the need for the Rules to comply with the Agreement, there is the issue of the obligation of the Court to comply with the Enforcement Directive’s transposed national equivalent.

The commentary correctly sets out that implementation of Article 12 of the Enforcement Directive is a matter of discretion for member states. Indeed, only nine of the member states have so far transposed that provision (or do not need to do so because their underlying court procedure allows this discretion). However, twenty-eight member states have implemented the mandatory proportionality aspects of the Directive which include the following Article.

Article 3 of the Enforcement Directive gives effect to Article 44(1) of the TRIPs Agreement and provides:

"General obligation

1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse."

The English Court of Appeal in *Vesterqaard Frandsen A/S v Bestnet Europe Ltd*² put beyond any doubt that courts must comply with the Enforcement Directive, with its proportionality obligations.

"[I]n the case of enforcement of an intellectual property right, the requirement [to consider proportionality] is explicit. The Enforcement Directive (2004/48/EC) by Article 3(2) inter alia requires that measures to enforce intellectual property rights shall be proportionate."

² [2011] EWCA Civ 424 at [56]

The Court of Justice of the European Union has repeatedly held that proportionality must underpin any remedy.³

An important policy consideration also underlies the need for proportionality and equity in the grant of injunctions. The Preparatory Committee should do what it can to allay fears that the UPC will encourage abusive patent litigation tactics in Europe. The last decade has seen a large increase in the number of abusive patent infringement actions in the U.S., principally involving licensing entities. Many have expressed concerns that the introduction of the UPC will cause an increase in similar cases in Europe. Although the current system builds in a number of safeguards (such as loser pays in relation to legal costs), clarity on the availability and exercise of discretion to grant injunctions would be beneficial in addressing the risk of abuses to the patent system.

Members of the Coalition invest hugely in European innovation and often seek to protect their novel inventions with patents in Europe and elsewhere. But even the Coalition, collectively owning hundreds of thousands of patents, also accepts that like all other European legislation, remedies in patent law must be proportionate: the CJEU in *Azienda Agro-Zootecnica Franchini Sarl v Regione Puglia* [2011] at [73], states:

"In this regard, the principle of proportionality... which is one of the general principles of European Union law, requires that measures adopted by Member States in this field do not exceed the limits of what is appropriate and necessary in order to attain the objectives legitimately pursued by the legislation in question; where there is a choice between several appropriate measures recourse must be had to the least onerous and the disadvantages caused must not be disproportionate to the aims pursued."

2.4 Suggested Amendment

In order to rectify the above-mentioned problems, we believe that a new subsection should be added to Rule 118:

2A. In taking its decision on whether to issue a permanent injunction, the Court shall have regard to principles of proportionality, flexibility, fairness and equity.

In addition, we recommend that the explanatory remarks provided explaining the removal of 118.2 in the 17th Draft of the Rules of Procedure should be deleted.

³ *Productores de Música de España (Promusicae) v Telefónica de España SAU* [2008] ECR I-271 at [68]; *DHL Express France SAS v Chronopost SA* [2011] ECR I-2801 at [58]; *L'Oréal SA v eBay International AG* [2011] ECR I-6011 at [140]-[144]; *Scarlet Extended SA v Société Belge des Auteurs, Compositeurs et Editeurs (SABAM)* [2011] ECR I-11959 at [36]; *Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (SABAM) v Netlog NV* [2012] ECR I-0000 at [34].

3.0 BIFURCATION: RULE 40

3.1 Overview

This section addresses the recent change to Rule 40 and suggests a small amendment. The wording of Rule 40, as amended by draft #17 of the Rules, and the explanatory remarks for the amendment, is set out below.

Text of Draft #17 of the Rules	Explanatory Remarks
<p>The judge-rapporteur shall accelerate proceedings before the central division where <u>(a) an Application for provisional measures has been lodged [Rule 206]; or</u> <u>(b) the regional or local division has referred the counterclaim for revocation to the central division and where the infringement action has not been stayed.</u> <u>In the latter case, the judge rapporteur of the panel of the central division shall endeavour to set a date for the oral hearing on the revocation action prior to the date of the oral hearing of the infringement action.</u></p>	<p>Together with new Rule 37.5, this addition in Rule 40(b) aims at the effective handling of the situation where a counterclaim for revocation has been referred to the central division while the infringement action is being dealt with by a local or regional division (without stay of proceedings); in such cases, the judge-rapporteur at the central division shall accelerate proceedings and endeavour to set an early date for the oral hearing, taking into account the information received (under new Rule 37.5) from the local or regional division about the date set for the oral hearing. New Rule 40(b) will not lead to acceleration in all cases where counterclaims for revocation are referred to the central division – only cases where the parallel infringement action is not stayed will be accelerated; in practice, the synchronisation of the calendars remains within the discretion of the judge-rapporteur (“shall endeavour”).</p>

The Coalition welcomes this amendment. Accelerating revocation benefits two of the principles of the system—ensuring fairness and equity—by reducing the possibility that an injunction will issue on an invalid patent. But because that possibility still exists, the Coalition suggests that the Preparatory Committee make additional changes to address the potential for harm when revocation and infringement decisions are mismatched even when the oral hearing dates are aligned under Rules 114 and 118.

As currently drafted, Rules 114 and 118 state that:

“Rule 114 – Adjournment where the Court considers that further evidence is required
 In exceptional cases, the Court may, after hearing the parties' oral submissions, decide to adjourn proceedings and call for further evidence.”

“Rule 118 – Decision on the merits
 7. (a) The Court shall give the decision on the merits as soon as possible after the closure of the oral hearing. The Court shall endeavour to issue the decision on the merits in writing within six weeks of the oral hearing.
 (b) The Court shall give reasons for its decision.

8. The Court may give its decision immediately after the closure of the oral hearing and provide its reasons on a subsequent date.”

3.2 Suggested Amendment Options

The Coalition recommends that targeted changes should be made to the Rules in order to eliminate the likelihood of an “injunction gap”, i.e. situations where an injunction is granted on a patent that is later declared invalid. We believe that this injunction gap problem can be addressed in three ways.

Option 1: Expedited Revocation Ruling

This option encourages the revocation Court to issue the substance of its decision before the infringement decision, even if the full explanation of its reasoning is not issued until a later date. By informing the parties of its decision as soon after the oral hearing as possible, the revocation Court can minimize the possibility that an injunctive remedy will be imposed on an invalid patent. This option can be implemented by further amending Rule 40 as below:

Rule 40 – Accelerated proceedings before the central division

The judge-rapporteur shall accelerate proceedings before the central division where

(a) an Application for provisional measures has been lodged [Rule 206]; or

(b) the regional or local division has referred the counterclaim for revocation to the central division and where the infringement action has not been stayed.

In the latter case, the judge rapporteur of the panel of the central division shall endeavour to set a date for the oral hearing on the revocation action prior to the date of the oral hearing of the infringement action, and to issue a revocation decision promptly after the oral hearing (and before an infringement decision) even if its reasons are to be given on a subsequent date in accordance with Rule 118(8).

Option 2: Enforcement Only After Revocation is Completed

Another option is to prevent, absent special circumstances, enforcement of any injunctive relief until the central division completes the revocation proceedings. Ensuring that injunctions and seizures are not enforced until any pending validity issues between the parties have been resolved prevents numerous public and private harms, including abusive litigation and the waste of public and private resources. Even when the issuance of injunctive relief is entrusted to the sound discretion of the Court, as it is here, the Coalition’s experience in other jurisdictions has demonstrated that even the possibility of injunctive remedies on invalid patents inevitably leads to coercive infringement suits and inappropriate settlements. The potential harm caused to a business from an unwarranted injunction—even if that injunction will be revoked by the Court after the completion of the revocation—is so great that many businesses, especially small entrepreneurial ones, would be forced to pay unreasonable settlements rather than put their company at risk.

This option does not interfere with the infringement action, but only prevents (absent special circumstances) the execution of injunctions or seizures based on the infringement of what ultimately may be an invalid patent. This option also prevents abuse of the revocation procedure by granting the Court the discretion to enforce the injunction relief immediately if necessary to satisfy the principals of fairness and equity, such as when accused infringers file frivolous validity challenges to delay enforcement of an injunction. The option can be implemented by amending Rule 37 as follows:

Rule 37 – Application of Article 33(3) of the Agreement

5. Where the panel decides to proceed in accordance with Article 33(3)(b) of the Agreement and not to stay the proceedings, the judge-rapporteur of the regional or local division shall communicate to the central division the dates set for the interim conference and for the oral hearing according to Rule 28, and shall stay, absent exceptional circumstances, any enforcement of a remedy under Articles 63(1) or 64 of the Agreement until the revocation proceedings are complete to ensure that permanent injunctions and seizures are not enforceable on invalid patents.

Option 3: Bond Requirement

This option requires the patentee to post a bond before the Court will enforce any injunctive relief when the central division has not yet ruled on the pending revocation issue. The bond amount, which would be left to the discretion of the Court, should be sufficient to compensate the accused infringer for any harm suffered by the unwarranted imposition of injunctive relief if the patent-in-suit is later determined to be invalid. If the patentee is unwilling or unable to post a bond, the Court should postpone the enforcement of injunctive relief until the central division completes the revocation proceedings. This will help compensate victims whose products have been removed from the EU market based on an invalid patent. This option can be implemented by amending Rule 352 as follows:

Rule 352 – Binding effect of decisions or order subject to security

1. Decisions and orders may be subject to the rendering of a security (whether by deposit or bank guarantee or otherwise) by a party (or parties) to the other party (or parties) for legal costs and other expenses and compensation for any damage incurred or likely to be incurred by the other party (or parties) if the decisions and orders are enforced and subsequently revoked, except that unless the interest of justice requires otherwise, such a security shall be required to enforce a remedy under Articles 63(1) or 64 of the Agreement when there is a pending revocation proceeding referred to the central division under Article 33(3).

4. CONCLUSION

We urge the Preparatory Committee to continue its work to strike the right balance between giving patent holders the tools they need to enforce their rights while minimizing the opportunities for abuse. We appreciate that Europe has long worked towards a unified patent system, and we hope the proposed new system will be a significant step forward with the potential to benefit both the creators and consumers of innovative products and technologies.

While several of the undersigned organizations will also participate in the hearing under the banners of other organizations and associations, we are united in our approach to permanent injunctions and bifurcation. We believe that these two concerns can and should be addressed through targeted changes to the proposed UPC rules of procedure. Adoption of these amendments will allow operating companies to focus on innovation instead of litigation, thereby fostering economic growth and prosperity in Europe.

We look forward to working with the signatories of the Agreement and the Preparatory Committee to achieve mutually beneficial reforms that build confidence in the new unified system and drives European economic and technological growth.

Please do not hesitate to contact us directly should you have any questions.

APPENDIX A: LIST OF COALITION PARTICIPANTS

ActoGenix NV	
adidas AG	
Association Française des Éditeurs de Logiciels et Solutions Internet (AFDEL)	
Apple Inc.	
ARM Holdings plc	
BlackBerry Limited	
Bull SAS	
Broadcom Corporation	
Cisco Systems Inc.	

Dell Inc.	
Deutsche Post AG	
European Semiconductor Industry Association (ESIA)	
Facebook, Inc	
Google Inc.	
Hewlett-Packard Company	
Huawei Technologies Co.,Ltd.	
Intel Corporation	

Liberty Global BV	
Microsoft Corporation	
Samsung Electronics Co., Ltd.	
Syndicat de l'Industrie des Technologies de l'Information (SFIB)	
Telecom Italia S.p.A.	