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PROPOSAL

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Subject:	Proposal for a COUNCIL DECISION authorising enhanced cooperation in the area of the creation of unitary patent protection

Delegations will find attached a proposal from the Commission, submitted under a covering letter from Mr Jordi AYET PUIGARNAU, Director, to Mr Pierre de BOISSIEU, Secretary-General of the Council of the European Union.

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Proposal for a

COUNCIL DECISION

**authorising enhanced cooperation in the area of the creation of unitary patent
protection**

EXPLANATORY MEMORANDUM

1. INTRODUCTION

On 1 August 2000, the Commission adopted a proposal for a Council Regulation on the Community patent¹. The Commission proposed the creation of a unitary Community patent which would co-exist with national patents granted by national patent offices of the Member States and European patents granted under the European Patent Convention (EPC) by the European Patent Office (EPO). As a well functioning centralised patent granting system had already been set up in Europe by the EPC in the 1970s, it was envisaged that the Community patent would also be granted by the EPO. Users of the patent system would be free to choose which type of patent protection best suited their needs.

The Commission proposal aimed at the creation of a Community patent that would be attractive to the users of the patent system in Europe, in particular by proposing simplified and cost-effective translation arrangements. In particular, the Commission proposed that after grant of the Community patent by the EPO in one of the official languages of the EPO (English, French or German) and publication in that language together with a translation of the claims into the other two official languages of the EPO, the Community patent would have taken effect in the entire Union.

The proposal was extensively discussed in the meetings of the Council, but failed to reach the required unanimity. On 26 November 2001, it was concluded that due to different aspects of the draft Community patent, "in particular the language arrangements", "despite all efforts, it was not possible to reach agreement at this Council meeting"². On 20 December 2001, the Belgian Presidency proposed a compromise on the translation arrangements, but it also failed to reach a unanimous agreement of the Member States³.

On 3 March 2003, the Council adopted a common political approach on the Community patent. This provided that patent proprietors would have to supply translations of the claims into all the official languages of the Member States⁴. Such an arrangement would have been significantly more costly to patent proprietors than the original Commission proposal and would have resulted in practical difficulties of supplying numerous translations within a limited time period. It was consequently rejected by all users of the patent system as too costly and too risky.

Following this, both on 28 November 2003⁵ and 11 March 2004⁶, the Council concluded that due to the issue of the translation regime it is unable to reach a political agreement on the

¹ Proposal for a Council Regulation on the Community patent - COM(2000) 412, 1.8.2000.

² Press release of the 2389th Council meeting "Internal Market, Consumer Affairs and Tourism", 14400/01, 26.11.2001.

³ Press release of the 2403rd Council meeting "Internal Market, Consumer Affairs and Tourism", 15489/01, 20.12.2001.

⁴ Common political approach, pt. 2.3: "the applicant must, upon the grant of the patent, file a translation of all claims into all official Community languages except if a Member State renounces the translation into its official language. The translation will be filed with the EPO and the cost borne by the applicant", see Council document 6874/03.

⁵ Press release of the 2547th Council meeting "Competitiveness (Internal Market, Industry and Research)", 15141/03, 26-27.11.2003.

proposed Regulation on the Community Patent, despite its previous common political approach of March 2003.

Discussions in the Council were re-launched after adoption of the Commission Communication "Enhancing the patent system in Europe" in April 2007⁷. The Communication confirmed the commitment to the creation of a Community patent. It also offered to explore with Member States an approach to the translation arrangements with a view to reducing translation costs while facilitating the dissemination of patent information in all official languages of the Union. The Commission indicated that in particular the ongoing machine translation projects merit consideration.

These ideas were first explored with the Member States during the Slovenian Presidency in 2008⁸. On 23 May 2008, the Presidency presented a revised proposal for a Community Patent Regulation⁹ on the basis of the initial simplified translation arrangement as proposed by the Commission in 2000 with certain new elements. Namely, any applicant could apply for a Community patent in any official language of the Union. The costs of translating this application into one of the three languages of the EPO would be reimbursed by the system to the applicants from the Member States that have a language not in common with the EPO. A system of machine translations would ensure the translation of EU patents and their applications into all official languages of the Union for the provision of patent information and without any legal effect. A full translation of the EU patent would only be required in a case of a dispute. These proposals were extensively debated in the Council Working Party on Intellectual Property (Patents) during the successive Presidencies in 2008 and 2009.

In December 2009, the Council adopted conclusions on an "Enhanced patent system for Europe"¹⁰ and a general approach on the proposal for a Regulation on the EU Patent¹¹ (change from the "Community" to "EU" patent due to the entry into force of the Lisbon Treaty on 1 December 2009). However, the translation arrangements for the EU patent remained out of the scope of these Council conclusions due to the change of the legal basis for the creation of the EU patent under the Lisbon Treaty.

In accordance with Article 118(1) of the Treaty on the Functioning of the European Union (TFEU), the EU patent as a European intellectual property title may be established under the ordinary legislative procedure. However, pursuant to Article 118(2) TFEU, a special legislative procedure with the unanimity in the Council is still required for the establishment of the language arrangements of these titles.

On this basis, on 30 June 2010 the Commission adopted a proposal for a Council Regulation on the translation arrangements for the EU patent¹². The proposal was accompanied by an Impact Assessment analysing various options for the possible translation arrangements. After careful analysis, the Commission came to the conclusion that the preferable option remains the translation arrangements as set out in the revised proposal for Community Patent

⁶ Press release of the 2570th Council meeting "Competitiveness (Internal Market, Industry and Research)", 6648/04, 11.3.2004.

⁷ Communication from the Commission to the European Parliament and the Council - COM(2007) 165.

⁸ Council documents 6985/08 and 8928/08.

⁹ Council document 9465/08.

¹⁰ Council document 17229/09.

¹¹ Council document 16113/09 Add 1.

¹² Proposal for a Council Regulation on the translation arrangements for the European Union patent - COM(2010) 350, 30.6.2010.

Regulation of 23 May 2008¹³. This language regime is simplified and cost-effective. It results in the highest cost saving for the users while ensuring legal certainty. This regime also builds on the well functioning system on the EPO and allows the widest flexibility for applicants.

The proposal was discussed in the Council Working Parties on Intellectual Property (Patents) on 14 July, 28 July and 7-8 September 2010. At the first meeting of the Working Party, it appeared that several delegations had fundamental concerns with the proposal. Some delegations made clear that a compromise was not possible. One delegation presented an alternative proposal¹⁴ which received little support from other delegations.

The Belgian Presidency nevertheless made every possible effort to achieve a unanimous agreement on the translation arrangements for the EU patent. On 29 September 2010, the informal Competitiveness Council had a first exchange of views on the Commission's proposal where possible elements for compromise proposed by the Presidency were discussed. Although a large majority of Member States supported the Commission's proposal and the elements for compromise, several delegations remained strongly opposed. On 6 October 2010 the Presidency proposed, for adoption by the Council, a draft political orientation¹⁵ which included elements for a compromise solution. The compromise solution was based on the Commission's proposal and took into account elements from the alternative proposal.

On 11 October 2010, the Council failed to reach an agreement on the translation arrangements on the basis of the draft political orientation. However, the Presidency continued working on a solution that could be acceptable to all Member States. On the basis of bilateral discussions with the delegations, the Presidency proposed a second set of elements for compromise on 8 November 2010¹⁶. Further elements for compromise were added to the draft political orientation on 9 November 2010¹⁷.

The draft political orientation was the only item on the agenda of the extraordinary Competitiveness Council convened by the Presidency on 10 November 2010. Despite all the efforts by the Presidency and the concessions made by a number of delegations, several Member States could not accept the proposed final compromise and unanimity could not be reached.

During the Council meeting of 11 October 2010, several Member States indicated that they were ready to consider the possibility of establishing a unitary patent within the framework of enhanced cooperation, should the Council not be able to reach agreement before the end of 2010. This intention was confirmed on 9 November 2010 when five delegations sent a letter to the Commission stating that if the negotiations regarding the appropriate translation regime for the EU patent continue to be blocked at the Council meeting of 10 November, it would be clear that European companies will be deprived of a unitary EU patent right for the foreseeable future. Those Member States requested that the Commission consider the feasibility of proposing enhanced cooperation in this area, should the Commission be presented with requests to propose such cooperation in the near future. At the Competitiveness Council meeting of 25 November 2010, a number of Member States

¹³ Council document 9465/08.

¹⁴ Council document 13031/10.

¹⁵ Council document 14377/10.

¹⁶ Council document 15395/10.

¹⁷ Council document 15395/10 ADD 1.

expressed their interest in moving ahead within the framework of enhanced cooperation, while others expressed their opposition.

At the Competitiveness Council meeting of 10 November 2010, it was recorded that there was no unanimity to go ahead with the proposed Council Regulation on the translation arrangements for the EU patent.¹⁸ It was confirmed at the Competitiveness Council meeting on 10 December 2010 that insurmountable difficulties existed, making a decision requiring unanimity impossible now and in the foreseeable future. It follows that the objectives of the proposed Regulations to establish unitary patent protection in the entire European Union can not be attained within a reasonable period by applying the relevant provisions of the Treaties.

Twelve Member States (Denmark, Estonia, Finland, France, Germany, Lithuania, Luxembourg, the Netherlands, Poland, Slovenia, Sweden and the United Kingdom) have addressed formal requests to the Commission indicating that they wish to establish enhanced cooperation between themselves in the area of the creation of unitary patent protection and that the Commission should submit a proposal to the Council to that end.

This proposal is the Commission's response to those requests.

2. LEGAL BASIS FOR ENHANCED COOPERATION

Enhanced cooperation is regulated by Article 20 of the Treaty on European Union (TEU) and Articles 326 to 334 of the Treaty on the Functioning of the European Union (TFEU).

This proposal of the Commission for a Council Decision authorising enhanced cooperation in the area of the creation of unitary patent protection is based on Article 329(1) TFEU.

3. MEASURES IMPLEMENTING ENHANCED COOPERATION

The Commission proposal for a Council Decision deals with the authorisation of enhanced cooperation in the area of the creation of unitary patent protection. Proposals for specific measures implementing enhanced cooperation will be submitted once enhanced cooperation is authorised by the Council.

It is, however, appropriate to outline some key elements of the envisaged implementing measures. Since the creation of unitary patent protection is not possible without an agreement on the applicable translation arrangements, both the substantive provisions applicable to the unitary patent (Article 118(1) TFEU) and the translation arrangements (Article 118(2) TFEU) should be part of the envisaged implementing measures.

The envisaged implementing measures should, therefore, include the following elements:

- (1) A proposal for a Regulation of the European Parliament and the Council creating unitary patent protection. That proposal could be based on the text agreed (general

¹⁸ Press Release of the Extraordinary Council meeting "Competitiveness (Internal Market, Industry, Research and Space)", 16041/10, 10.11.2010.

approach) in the Council on 4 December 2009¹⁹ as well as certain elements of the draft political orientation proposed by the Belgian Presidency, in particular:

- The unitary patent protection should be optional to the users of the patent system and should co-exist with national and European patents. The unitary patent should be a specific category of a European patent, granted by the European Patent Office, designating the Member States participating in enhanced cooperation on unitary basis.
- Consequently, a single procedure in accordance with the EPC would apply to unitary patents and to all other European patents. Until the moment of grant, applicants would have the choice between (i) a European patent valid in the territories of the participating Member States for which this patent would have unitary character, (ii) a European patent valid in the territories of the participating Member States for which this patent would have unitary character but also designating selected other Contracting States of the EPC, or (iii) a European patent designating only selected Contracting States of the EPC.
- The unitary patent should be of autonomous nature and provide equal protection throughout the territories of the participating Member States. It may only be granted, transferred, revoked or may lapse in respect of those territories as a whole.

(2) A proposal for a Council Regulation on the translation arrangements for the unitary patent. This proposal would take over the main elements of the Commission's proposal for a Council Regulation on the translation arrangements for the EU patent²⁰ as well as certain elements of the draft political orientation proposed by the Belgian Presidency, in particular:

- It is envisaged that the specification of the unitary patent be published by the EPO in accordance with Article 14(6) EPC. Without prejudice to any transitional arrangements deemed necessary, no further translations would be required. Any additional translation requirements under such transitional arrangements would be proportionate and required only on a temporary basis and not have legal value thus ensuring legal certainty for the users of the patent system. In any case, transitional arrangements would terminate when high quality machine translations are made available, subject to an objective evaluation of the quality.
- Translations should not have legal value thus ensuring legal certainty for the users of the patent system.
- In case of a dispute relating to a unitary patent, a full manual translation of the patent specification would have to be provided by the patent proprietor at his expense:
 - (a) into an official language of the Member State in which either the alleged infringement took place or in which the alleged infringer is domiciled (at the choice of the alleged infringer); and

¹⁹ Council document 16113/09.

²⁰ COM(2010) 350.

- (b) into the language of proceedings of the court hearing the dispute (at the request of the court).
- A scheme for compensating the costs of translating patent applications filed in an official language of the Union into an official language of the EPO at the beginning of the procedure for applicants based in the Member States which have an official language other than one of the official languages of the EPO, should be set up in addition to what is currently in place for other European patents, including financial and technical assistance for preparing those translations.

4. ASSESSMENT OF THE LEGAL CONDITIONS FOR ENHANCED COOPERATION

4.1. Authorising decision as last resort and participation of at least nine Member States

Article 20(2) TEU lays down that a decision authorising enhanced cooperation can be adopted by the Council only as a last resort, when it has established that the objectives of such cooperation cannot be attained within a reasonable period by the Union as a whole, and that at least nine Member States participate in it.

It was recorded at the Competitiveness Council meeting of 10 November 2010 that there was no unanimity to go ahead with the proposal for a Council Regulation on the translation arrangements for the EU patent²¹. It was confirmed at the Council meeting on 10 December 2010 that insurmountable difficulties existed, making a decision requiring unanimity impossible at the time and in the foreseeable future.

Whereas the translation arrangements are necessary for the creation of unitary patent protection, it has been established that the objectives of the Regulation on the EU patent can not be attained within a reasonable period by applying the relevant provisions of the Treaties. It follows that no other solution for the creation of unitary patent protection for the Union as a whole can be found and that as a result, enhanced cooperation is a last resort.

The Commission has received requests from twelve Member States indicating that they wish to establish enhanced cooperation between themselves in the area of the creation of unitary patent protection. These Member States confirmed their requests at the meeting of the Competitiveness Council on 10 December 2010.

4.2. Area covered by the Treaty

Article 329(1) TFEU lays down that enhanced cooperation can be established "in one of the areas covered by the Treaties". Establishing measures for the creation of European intellectual property rights is expressly mentioned in Article 118 TFEU. The creation of unitary patent protection is a sufficiently homogenous and structured subject matter to constitute a well-defined area, within the meaning of the Treaties, in which enhanced cooperation may be established.

²¹ Press Release of the Extraordinary Council meeting "Competitiveness (Internal Market, Industry, Research and Space)", 16041/10, 10.11.2010.

Article 20(1) TEU lays down that enhanced cooperation can only be established "within the framework of the Union's non-exclusive competences". Unitary patent protection is not included in the list of exclusive competences set out in Article 3(1) TFEU. The legal basis for legislating in the matter of intellectual property rights (Article 118 TFEU) falls within the chapter of approximation of laws and makes specific reference to the establishment and functioning of the internal market, which is one of the shared competences of the Union (Article 4 TFEU). The creation of unitary patent protection with applicable translation arrangements therefore falls within the framework of the Union's non-exclusive competences. The consideration that only the Union can establish unitary patent protection within the Union does not make the establishment of such unitary patent protection a matter of exclusive competence. Any argument to the contrary confuses the notions of the conferral of power (which in this case is a power to establish measures for the creation of European intellectual property rights to provide uniform protection throughout the Union) and the manner in which the power is exercised by the Union.

4.3. Furthering the objectives of the Union, protecting its interests and reinforcing its integration process

4.3.1. Furthering the objectives of the Union

Two objectives of the Union as set out in Article 3(3) TEU are of particular relevance for the area of patents:

- the establishment of an internal market; and
- the promotion of scientific and technological advance.

Establishment of an internal market

The internal market comprises an area without internal frontiers and in which notably the free movement of goods is ensured (Article 26(2) TFEU). For that purpose, the Union should adopt measures with the aim of ensuring the functioning of the internal market (Article 26(1) TFEU). One such measure is the creation of "European intellectual property rights". Article 118(1) TFEU expressly states that such rights shall be created "in the context of the establishment and functioning of the internal market".

The current national patent systems of Member States and the European patent system lead to a fragmented system for patent protection in Europe. The main reason is that national patents and European patents provide territorially-limited protection without covering the internal market as a whole, on a unitary basis, due to the following:

- the protection conferred by a national patent is limited to the territory of the Member State in which it has been granted;
- the territorial scope of a European patent depends on the decision of the patent proprietor to validate the European patent in one or more Member States where the patent has the effect of a national patent (implying administration by the national patent office and enforcement before national courts).

There is ample evidence that, in practice, patent proprietors currently only seek patent protection for their inventions in a few Member States²². They appear to refrain from seeking patent protection in large areas within the Union due to high costs and complexity caused by translation costs, validation requirements, official fees (publication and annual renewal fees) and professional representation requirements (see Section 5.2.2 below).

The creation of a unitary patent for a group of Member States would imply improving the level of patent protection through the creation of a title which confers uniform protection throughout the territories of the participating Member States. In the territories of those Member States, users of the European patent system would have access to a patent providing unitary patent protection and eliminating the costs and complexity. A unitary patent would therefore further the objective of the Union to ensure the functioning of the internal market, even if only a limited number of Member States participate.

In Member States which choose not to participate in enhanced cooperation, the legal framework relating to patents would remain unaffected. This means that inventors seeking patent protection in non-participating Member States would need to validate their European patent for those territories with the resulting translation and other transactional costs. The European patent for the territories of the participating Member States, for which it would have unitary character, could also designate selected non-participating Member States. It would thus be possible to obtain patent protection throughout the Union.

In addition, inventors established in non-participating Member States would be able to benefit from the uniform patent protection in the area covered by the territories of the participating Member States (explained in more detail in Section 4.6). As a result, obtaining patent protection throughout the Union would be simplified and the costs for such protection would be drastically reduced for inventors from both participating and from non-participating Member States. Consequently, it is expected that significantly more inventors would seek patent protection throughout the Union than is currently the case.²³ This would be beneficial for the functioning of the internal market.

Promotion of scientific and technological advance

It is generally acknowledged that easy access to patent protection stimulates R&D:²⁴ the propensity of individual inventors, innovative SMEs and big businesses to invest in R&D depends to a large extent on the possibility of securing an exclusive right for any invention made, in order to ensure fair return on their investment. Easy access to a more cost-effective, simpler and legally secure patent system is therefore of utmost importance for promoting scientific and technological advance in the Union.

The current fragmented patent system in Europe is not conducive to creating the proper framework conditions for stimulating R&D. The existing patent system is perceived by businesses – especially by SMEs – as too costly and complex²⁵.

²² On average, a European patent is only validated in five Member States, see Impact Assessment accompanying the Commission's proposal for a Council Regulation on the translation arrangements for the EU patent - SEC(2010) 796, p. 12 - with further references.

²³ See Section 5.2.1. below.

²⁴ Guellec / van Pottelsberghe, *The Economics of the European Patent System*, OUP 2007.

²⁵ See, for instance, the Commission's 2006 Consultation on the future patent policy in Europe.

The creation of a unitary patent will bring considerable advantages to users of the patent system in terms of easier access, better cost-effectiveness, more simplification and improved legal certainty. It will not only be easier and less costly to obtain patent protection for the territories of the participating Member States, but also easier and less costly to obtain patent protection for the whole Union, as explained above. These improved framework conditions will contribute to stimulate R&D investments and thus promote scientific and technological advancement throughout the Union. Since users in non-participating Member States would also benefit from unitary patent protection, positive effects can equally be expected on R&D activities in non-participating Member States.

4.3.2. Protecting its interests and reinforcing its integration process

Protection of Union's interests

Due to the fragmentation of the internal market resulting from the high costs associated with patent protection in the Union, the Union's inventors cannot enjoy the full benefits of the Single Market. This is notably the case if such inventors seek optimal protection for the Union as a whole. This compares negatively with other major economies such as the United States, Japan or China. It can in particular be more attractive for an inventor to seek patent protection in economies with large consumer markets and unitary protection systems, such as the United States. This situation has negative impact on the competitiveness of the Union as innovation-related activities generate human capital that tends to be more mobile than in other areas. The current less advantageous framework conditions for innovation makes the Union a less attractive place to create and innovate, for both European and non-European inventors. Enhanced cooperation in the area of unitary patent protection for a group of Member States would thus protect the interests of the Union as it would improve its competitive position and its attractiveness for the rest of the world.

Reinforcement of Union's integration process

Enhanced cooperation in the area of the unitary patent protection among a group of Member States would also increase the level of integration between the participating Member States and also between participating and non-participating Member States as compared to the current situation.

Instead of 27 legal frameworks of different validation and maintenance requirements in the post-grant phase, users may choose between a unitary patent subject to one legal regime and a European or a national patent subject to national legal regimes, thus bringing greater harmonisation in the patents area and reinforcing the integration process in the participating Member States.

Due to the costs and complexity inherent in the current system, European patents are validated on average in five Member States. This creates patent right "borders" within the Union. With a unitary patent, internal patent right borders among the participating Member States would disappear. Moreover, since the overall costs and complexity of obtaining patent protection throughout the Union would be significantly reduced, it could be expected that more inventors would seek patent protection by means of a European patent also in the Member States that do not participate in enhanced cooperation²⁶.

²⁶ See Section 5.2.1. below.

This is even more likely as inventors would have an interest in obtaining patent protection throughout the Union in order to protect the inventions against products from third countries that infringe their patents entering the internal market. Currently, a seizure of such products at the external borders of the Union under the EU Customs Border Regulation is not possible if these products are imported via Member States where the patent holder has not validated his patent. This severely hampers the protection against imports of products infringing patents from third countries. It can be expected that once overall costs are significantly reduced, more patent holders suffering from this will seek wider protection. Consequently, enhanced cooperation would strengthen integration in the area of patent protection in the Union.

Unitary patent protection would therefore reinforce integration between the participating Member States by providing a high level of patent protection across the borders of the participating Member States. By providing uniform patent protection in the participating Member States, the unitary patent will provide for an area without "patent loopholes" where undesirable effects such as the fragmentation of the internal market and "free-riding" by infringers can be countered. As far as integration between participating Member States and non-participating Member States is concerned, positive effects can also be expected since users from non-participating Member States would also benefit from the unitary patent and the access to uniform patent protection in the participating Member States. This would contribute to intensify cross border economic activities between participating and non-participating Member States as well.

4.4. Compliance with the Treaties and Union law

In accordance with Article 326 TFEU, enhanced cooperation must comply with the Treaties and Union law. In the area of the creation of unitary patent protection, enhanced cooperation would respect the existing *acquis*.

First, the cooperation would be established in an area that is covered by the shared competences of the Union (Article 4(2) TFEU – see Section 4.2 above).

Second, there is to date only a limited number of legal acts of the Union within the meaning of Article 288 TFEU none of which cover the creation of a European intellectual property right providing for uniform protection throughout the Union.

With the exception of Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions²⁷, no approximation of substantive patent law exists at Union level. This Directive provides in particular for harmonised patentability criteria and exceptions from patentability for biotechnological inventions. The Union legislator has enacted legislation concerning patent term extensions for specific types of patented subject matter. The relevant instruments are Regulation (EC) No 1610/96 creating a supplementary protection certificate for plant protection products²⁸ and Regulation (EC) No 469/2009 creating a supplementary protection certificate for medicinal products²⁹.

Enhanced cooperation in the area of patents would not cause discrimination. Access to the unitary patent will be open to users of the patent system from all over the Union, whatever the

²⁷ OJ L 213, 30.7.1998, p. 13.

²⁸ OJ L 198, 8.8.1996, p. 30–35.

²⁹ OJ L 152, 16.6.2009, p. 1–10.

applicants' nationality, residence or place of establishment. On the other hand, users would continue to be able to obtain patent protection in non-participating Member States by designating those Member States in addition to the unitary designation of the territories of the participating Member States.

Further, all users would have a possibility of validating their European patent for the territories of the participating Member States and for non-participating Member States under the same conditions. The same patent for the same invention would thus be granted by the EPO without any additional administrative burden and without additional costs. The users would pay the relevant fees for the grant of their patent to the EPO and would retain the choice of the territories to be covered until the grant, namely the choice between (i) a European patent valid in the territories of the participating Member States for which this patent would have unitary character, (ii) a European patent valid in the territories of the participating Member States for which this patent would have unitary character but also designating selected other Contracting States of the EPC, or (iii) a European patent designating only selected Contracting States of the EPC.

4.5. No undermining of the internal market or economic, social and territorial cohesion, no barrier to or discrimination in trade no distortion of competition

4.5.1. Enhanced cooperation must not undermine the internal market or economic, social and territorial cohesion

Article 326 TFEU requires that enhanced cooperation must not undermine the internal market or economic, social and territorial cohesion.

As explained above, the creation of unitary patent protection for a group of Member States would contribute to the functioning of the internal market³⁰. Unitary patent protection with uniform effect in the participating Member States will reduce current problems caused by the fragmented patent system in participating Member States. In particular, patent proprietors will be able to prevent infringing goods and products from third countries from entering the territories of the participating Member States and to adapt production, licensing and businesses practices to the markets of the participating Member States.

The functioning of the internal market would also improve as regards the non-participating Member States since, as explained above, it is likely that more inventors would seek patent protection throughout the Union.

Moreover, as explained in more detail in Section 4.6. below, equal access to unitary patent protection would be ensured to all patent holders whether they come from participating Member States or non-participating Member States. Unitary patent protection covering the territories of the participating Member States would be an additional instrument available to all patent holders in the Union and can only improve the current state of the functioning of the internal market. This should also contribute to improving economic cohesion.

More generally, economic, social and territorial cohesion would not be adversely affected by unitary patent protection as, in particular, the place of establishment of an economic operator will be immaterial for access to unitary patent protection (and the associated simplification benefits and cost savings).

³⁰ See Section 4.3.1. above.

4.5.2. *Enhanced cooperation must not constitute a barrier to or discrimination in trade between Member States nor distort competition between them*

Article 326 TFEU requires that enhanced cooperation must not constitute a barrier to or discrimination in trade between Member States nor distort competition between them.

As explained above, the creation of unitary patent protection within the territories of a group of Member States would contribute to the functioning of the internal market and, particularly, the free movement of goods. Today's fragmentation where patent right "borders" exist between Member States (due to the limited territorial scope of existing patent rights) would disappear among participating Member States. As far as trade between participating Member States and non-participating Member States is concerned, the situation is also likely to improve as more inventors are likely to seek protection throughout the Union than currently is the case³¹.

In addition, (and as explained further under Section 4.6 below) enhanced cooperation in the area of unitary patent protection will not constitute a barrier to, or a discrimination in trade between Member States. The unitary patent system will be open as inventors and innovative companies from non-participating Member States would have access to unitary patent protection when seeking patent protection in the participating Member States on an equal footing with their counterparts from participating Member States. As far as patent protection in non-participating Member States is concerned, no barrier to, or discrimination in trade will be created as all users will need to validate their European patent in those States or to obtain national patents, whether they come from participating, or non-participating member states.

Concerning the requirement that enhanced cooperation does not distort competition, competition would neither be distorted between Member States nor between economic operators.

Unitary patent protection created under enhanced cooperation would, in particular, not influence competition between Member States for investments by innovative companies. The framework conditions for innovative businesses would improve all over the Union due to the savings of patenting costs as described above. As the place of establishment of an economic operator will be immaterial for access to unitary patent protection (and the associated cost savings), whether or not a Member State participates in enhanced cooperation would not be decisive for an investment decision in favour or against that Member State.

As regards the competition between undertakings from participating and non-participating Member States, the creation of unitary patent protection would improve the framework conditions for innovative businesses throughout the Union. The number of patents valid on both the territories of participating Member States and on the territories of non-participating Member States is likely to increase, as patent proprietors may wish to obtain a unitary patent for participating Member States, while making use of the cost savings resulting from the use of the unitary patent to obtain European patents for the territories of the non-participating Member States. As explained above, this is particularly likely in those economic sectors which are affected by the imports of products infringing European patents from third countries since only seamless protection at all external borders of the Union would allow patent proprietors to effectively use the EU Customs Border Regulation and to have these products seized at all external borders.

³¹ See Sections 4.3.2. and 5.2.1.

4.6. Respecting the rights of non-participating Member States

Article 327 TFEU requires that any enhanced cooperation respects the competences, rights and obligations of those Member States that do not participate in it.

Enhanced cooperation in the area of patents would fully respect the rights of non-participating Member States. Access to the unitary patent would be open to users of the patent system from all over the Union, regardless of the applicants' nationality, residence or place of establishment. On the other hand, users would continue to be able to obtain patent protection in non-participating Member States by obtaining a European patent on the territories of those Member States or, less likely, by obtaining national patents. Therefore, access of inventors and innovative companies from non-participating Member States to the unitary patent would be identical to the ones from the participating Member States.

The participating Member States would therefore create unitary patent protection throughout the territory of enhanced cooperation. The right of non-participating Member States to maintain the requirements for patent protection on their territories are thus not affected. They can, for example, continue requesting translations of European patents as a prerequisite for a validation on their national territory.

It should be emphasised that a unitary patent would not discriminate between users coming from participating Member States and from non-participating States: users from non-participating Member States would have access to unitary patent protection when seeking patent protection (and thus access for their innovative products to the markets) in the participating Member States on an equal footing with users from participating Member States. As far as patent protection in non-participating Member States is concerned, all users will need to validate their European patent in those States or to obtain national patents.

Applicants from the non-participating Member States would also be able to benefit from the compensation of costs for translations of applications filed in a national language into one of the EPO working languages in the same way as applicants from the participating Member States. Moreover, alleged infringers from non-participating Member States would also benefit from the requirement to be provided with a full manual translation in the case of a dispute. Consequently, there would be no discrimination between the users from the participating and the non-participating Member States.

Finally, it is noted that enhanced cooperation on unitary patent protection does not raise any issues in relation to the exhaustion of the patent rights. There would be no impact on the free movement of goods between the participating Member States and the non-participating Member States. According to the standing case law of the Court of Justice of the European Union, exhaustion of the patent right or any other intellectual or industrial property right requires that the protected item has been put on the market within the Union (or within the European Economic Area) by the right holder himself or with his consent. As regards patents, the Court of Justice has indeed ruled that the Treaty rules concerning the free movement of goods, including the provisions of Article 36 TFEU, must be interpreted as preventing the patent proprietor who sells a product in one Member State where this product is protected by a patent, and then markets it himself in another Member State where it is not protected, from

availing himself of the right conferred by the legislation of the first Member State to prevent the marketing in that State of the said preparation imported from the other Member State³².

4.7. Conclusion on the fulfilment of legal conditions

On the basis of above, the Commission concludes that all legal conditions set by the Treaties for enhanced cooperation are fulfilled.

5. ASSESSMENT OF THE IMPACTS OF ENHANCED COOPERATION

5.1. Current situation

The current situation resulting from national and European patents providing only territorially-limited patent protection leads to "gaps" within the Union which may have several of the following undesirable effects:

- Business opportunities are lost: patent proprietors will tend to focus on some national markets in their patent protection and the production, licensing and marketing of their products; business opportunities in other markets – whether smaller or more distant – are less likely to be pursued; this fails to fulfil a true internal market and this may also undermine the cohesion within the Union;
- Innovative companies are at a disadvantage: third parties producing and selling patented products in Member States where patent protection has not been secured have a competitive advantage over patent proprietors who need to recoup R&D investments; especially innovative SMEs who have refrained from securing patent protection throughout the Union due to the high costs associated with obtaining such protection;
- The value of patents is weakened: patent proprietors cannot rely on the EU Customs Border Regulation³³ to prevent infringing goods and products from third countries from entering the internal market through Member States in which there is no patent protection; such infringing goods and products have to be released by the customs authorities and may thus circulate freely within the internal market; in principle, they may not enter Member States where patent protection has been secured, but in practice – as border controls are no longer in place within the internal market – such goods or products can circulate freely within the Union³⁴.

5.2. Assessment of the impacts

The creation of a unitary patent title for a group of Member States would entail immediate tangible advantages for users of the patent system in Europe. The following features of unitary patent protection should be emphasised:

³² Case 187/80, *Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler*, [1981] ECR, p. 2063.

³³ Council Regulation (EC) No 1383/2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights.

³⁴ The identification of the goods in breach of the patent becomes very complicated once they are circulating freely within the internal market. Only when enforcing the patent before national courts can patent proprietors assert their rights.

- Improved access to patent protection
- Cost reduction and simplification

5.2.1. *Improved access to patent protection*

The unitary patent for the area covered by enhanced cooperation would ensure easier access to patent protection for all users of the patent system in Europe. This would apply both for applicants from participating Member States and from non-participating Member States. The area for enhanced cooperation would cover a market that is much larger than any market of a single Member State, resulting in reduced costs of protection relative to the size of the economy.

The effect of relative patenting costs on the demand for patent protection was investigated in a recent study performed for the Commission³⁵. That study compared patent costs, taking into account the market size and the number of claims in an average patent for a given territory, and showed that very high costs in Europe induce a much smaller demand for patent applications filed at the EPO. The study also shows that the London Agreement³⁶ has a substantial impact on reducing costs, but a European patent remains several times more expensive than a US patent.

By providing for a unitary patent title covering a sizeable area of the Union, the cost per claim per capita for patent protection would decrease. Studies have shown the fee elasticity to be -0.4³⁷; a fee increase of 10% would lead to a drop in patent filing of about 4%. By reducing the cost of patent protection per capita, an enlarged territory for patent protection should therefore lead to greater demand for patenting. This would bring about new opportunities for SMEs where high relative costs currently make protection outside their own domestic market virtually inaccessible.

5.2.2. *Cost reduction and simplification*

Unitary patent protection created under enhanced cooperation would result in significant cost reduction and simplification of the system for the users due to the central administration of the unitary patent and the simplified translation requirements.

5.2.2.1. Central administration of the unitary patent

The central administration of the unitary patent would bring significant improvements in terms of cost reduction and simplification. The following advantages would be noticeable:

- Central payment of annual renewal fees (as opposed to the current payment of annual renewal fees to the national patent offices in each Member State where the patent

³⁵ Economic Cost-Benefit Analysis of the Community Patent by Bruno van Pottelsberghe and Jérôme Danguy, see http://ec.europa.eu/internal_market/indprop/patent/index_en.htm

³⁶ The London Agreement is an optional scheme seeking to reduce the patenting costs in the framework of the EPC. It was adopted in October 2000 by an Intergovernmental Conference of the EPC Contracting States and entered into force on 1 May 2008 for fourteen EPC Contracting States of which ten are EU Member States.

³⁷ G de Rassenfosse and B van Pottelsberghe, Per un pugno di dollari: A first look at the price elasticity of patents, *Oxford Review of Economic Policy*, 23(4), 588-604.

proprietor wishes to maintain the patent in force): again, patent proprietors will benefit from significant cost reduction:

- as far as official fees are concerned, patent proprietors would only need to pay one annual renewal fee for the unitary patent, rather than having to pay annual renewal fees in each Member State where maintenance of the national or European patent is intended;
 - as far as representation costs are concerned, patent proprietors would be able either to pay themselves annual renewal fees for the unitary patent directly to the EPO or to entrust only one professional representative with such payment, rather than having to entrust professional representatives with payments in each Member State where maintenance is intended³⁸.
- Central registration of legal information relating to the patent, such as licenses, transfers, limitations, lapses, surrenders (as opposed to the current national requirements relating to registration at the national patent offices): this would greatly enhance legal certainty by enabling easy access to legal information relating to patents; in particular in the context of negotiations of licensing agreements, and especially in the context of standards, an overview of ownership and legal status of patents is crucial and enable a much better management of patent portfolios.

5.2.2.2. Translation requirements

The lack of a unitary patent title results in significant costs directly and indirectly related to the currently applicable translation requirements. At present, a European patent must be validated in a majority of EPC Contracting States in order to take effect. National law may require that the patent proprietor file a translation of the patent, pay a publication fee to the national patent office and comply with various formal requirements (relating for instance to the number of copies to be filed, use of prescribed forms, time periods). Significant costs, red-tape and complexity accrue in this process, including the following:

- Costs of technical translations. Specialised translators are needed to translate the technical text contained in patents. On average, EUR 85 is charged per page while the length of a typical patent is about 20 pages (but may reach 200 pages in certain cases).
- Fees charged by professional representatives. Local professional representatives often act as intermediaries between the patent proprietor and the national patent offices where the translations are to be filed. They may offer to arrange for translations or verify translations carried out by external translators, or they may offer to ensure that formal requirements laid down by national law are complied with. Fees must be paid by the patent proprietor for such services, and they vary from around EUR 150 to EUR 600 per validation of a patent depending on the Member State.

³⁸ It may be recalled that several Member States maintain direct or indirect requirements for patent proprietors to use a local professional representative before national patent offices, see <http://www.epo.org/patents/law/legal-texts/html/natlaw/en/vi/index.htm> (for the payment of annual renewal fees) and <http://www.epo.org/patents/law/legal-texts/html/natlaw/en/iv/index.htm> (for filing translations).

- Official fees charged by national patent offices for the publication of the translations. Publication fee for a European patent of typical length (20 pages) varies from EUR 25 to EUR 400 in certain Member States.

In total, these validation costs can add up to about 40% of the overall costs of patenting in Europe. In many cases, validation of a European patent in just one Member State may cost more than all fees paid to the EPO for the search, examination and grant of a European patent.

With a unitary title for a number of Member States, significant cost savings and simplification for the users of the system may be achieved. For participating Member States, the common simplified translation arrangements would result in the following:

- (a) translation requirements would be limited to the requirements established under the EPC, without prejudice to proportionate transitional arrangements providing for additional translations on a temporary basis, without legal value and purely for information purposes;
- (b) no requirement to file a translation with national patent offices and no payment of publication fees;
- (c) no need to pay for representation at national level.

Currently, the validation costs for a European patent of typical length, in three, six and thirteen Member States, respectively, and the entire Union would be the following:

- if the patent proprietor seeks protection in only three Member States – Germany, France and the United Kingdom – no validation requirements apply and no validation costs are incurred, following the entry into force of the London Agreement;
- if protection is sought in six Member States, validation costs may vary from EUR 3 000 to EUR 4 500 depending on the Member States chosen and whether the relevant Member States have implemented the London Agreement;
- validation costs would be more than EUR 12 000 when protection in thirteen selected Member States is sought, Union-wide coverage would cost between EUR 22 000 to EUR 26 000 in validation costs.

The translation costs under the simplified translation arrangements of enhanced cooperation would amount to approximately EUR 680 per patent³⁹, without prejudice to proportionate additional translation requirements purely for information purposes that might be deemed necessary during a transitional period. This corresponds to the current average cost of the translation of the claims into the two working languages of the EPO other than the language of proceedings (Article 14(6) EPC).

The validation costs for the territories of the participating Member States would thus be identical to current cost of protection in Member States which are parties to the London

³⁹ 4 pages of claims x 85 EUR/page x 2 languages = 680 EUR.

Agreement and have entirely dispensed with translation requirements (Germany, France, UK and Luxembourg)⁴⁰.

Additional costs of validation would only occur in cases where the patent proprietor would seek to extend the patent protection to non-participating Member States. As a result of enhanced cooperation, significant cost savings would be made by the users across the Union. Notwithstanding the actual number of participating Member States, all applicants would benefit from the reduction in cost of patenting due to the simplified translation requirements. Certainly, the more Member States participate, the larger cost savings may be anticipated.

⁴⁰ Contracting States with an official language in common with one of the EPO working languages that are party who are party to the London Agreement are required to dispense entirely with translation requirements (Article 1(1) of the Agreement). Within the EU, this applies to France, Germany, Luxembourg and the United Kingdom.

Proposal for a

COUNCIL DECISION

authorising enhanced cooperation in the area of the creation of unitary patent protection

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 329(1) thereof,

Having regard to the requests made by Denmark, Estonia, Finland, France, Germany, Lithuania, Luxembourg, the Netherlands, Poland, Slovenia, Sweden and the United Kingdom,

Having regard to the proposal from the European Commission,

Having regard to the consent of the European Parliament⁴¹,

Whereas:

- (1) In accordance with Article 3(3) of the Treaty on European Union (TEU), the Union shall establish an internal market, shall work for the sustainable development of Europe based on balanced economic growth and shall promote scientific and technological advance. The creation of the legal conditions enabling undertakings to adapt their activities in manufacturing and distributing products across national borders and providing companies with more choice and opportunities contributes to attaining this objective. A unitary patent which provides uniform effects throughout the Union should feature amongst the legal instruments which undertakings have at their disposal.
- (2) Pursuant to Article 118 of the Treaty on the Functioning of the European Union (TFEU) and in the context of the establishment and functioning of the internal market, measures should include the creation of uniform patent protection throughout the Union and the establishment of centralised Union-wide authorisation, coordination and supervision arrangements.
- (3) On 5 July 2000, the Commission adopted a proposal for a Council Regulation on the Community patent for the creation of a unitary patent providing uniform protection throughout the Union. On 30 June 2010, the Commission adopted a proposal for a Council Regulation on the translation arrangements for the European Union patent (EU patent) providing for the translation arrangements applicable to the EU patent.
- (4) At the Council meeting on 10 November 2010, it was recorded that there was no unanimity to go ahead with the proposed Council Regulation on the translation arrangements applicable for

⁴¹ OJ C , , p. .

the European Union patent. It was confirmed on 10 December 2010 that insurmountable difficulties existed, making unanimity impossible at the time and in the foreseeable future. Since the agreement on the proposed Council Regulation on the translation arrangements for the EU patent is necessary for a final agreement on unitary patent protection in the Union, it is established that the objective to create unitary patent protection for the Union could not be attained within a reasonable period by applying the relevant provisions of the Treaties.

- (5) In these circumstances, twelve Member States, namely Denmark, Estonia, Finland, France, Germany, Lithuania, Luxembourg, the Netherlands, Poland, Slovenia, Sweden and the United Kingdom, addressed requests to the Commission by letters dated 7, 8 and 13 December 2010 indicating that they wished to establish enhanced cooperation between themselves in the area of the creation of unitary patent protection on the basis of the existing proposals supported by these Member States during the negotiations and that the Commission should submit a proposal to the Council to that end. The requests were confirmed at the meeting of the Competitiveness Council on 10 December 2010. In total, twelve Member States have requested enhanced cooperation.
- (6) Enhanced cooperation should provide the necessary legal framework for the creation of unitary patent protection in participating Member States and ensure the possibility for undertakings throughout the Union to improve their competitiveness by having the choice of seeking uniform patent protection in participating Member States, as well as contributing to scientific and technological advance.
- (7) Enhanced cooperation should aim at creating a unitary patent, providing uniform protection throughout the territories of the participating Member States and which would be granted in respect of all those Member States by the European Patent Office (EPO). As a necessary part of the unitary patent, the applicable translation arrangements should be simple and cost-effective and correspond to those provided for in the proposal for a Council Regulation on the translation arrangements for the European Union patent⁴², presented by the Commission on 30 June 2010, combined with the elements of compromise proposed by the Presidency in November 2010 that had wide support in Council. The translation arrangements would maintain the possibility of filing patent applications in any language of the Union at the EPO and would ensure compensation of the costs related to the translation of applications filed in languages other than an official language of the EPO. The patent having unitary effect should be granted only in one of the official languages of the EPO as provided for in the European Patent Convention. No further translations would be required without prejudice to transitional arrangements which would be proportionate and require additional translations on a temporary basis, without legal effect and purely for information purposes. In any case, transitional arrangements would terminate when high quality machine translations are made available, subject to an objective evaluation of the quality. In case of a dispute, mandatory translation obligations should apply to the patent proprietor.
- (8) The conditions laid down in Article 20 TEU and in Articles 326 and 329 TFEU are fulfilled.
- (9) The area within which enhanced cooperation would take place, the establishment of measures for the creation of unitary patent providing protection throughout the Union and the setting up

⁴² COM(2010) 350.

of centralised Union-wide authorisation, coordination and supervision arrangements, is identified by Article 118 TFEU as one of the areas covered by the Treaties.

- (10) It was recorded at the Council meeting on 10 November 2010 and confirmed on 10 December 2010 that the objective to establish unitary patent protection within the Union cannot be attained within a reasonable period by the Union as a whole, thus fulfilling the requirement in Article 20(2) TEU that enhanced cooperation be adopted only as a last resort.
- (11) Enhanced cooperation in the area of the creation of unitary patent protection aims at fostering scientific and technological advance and the functioning of the internal market. The creation of unitary patent protection for a group of Member States would improve the level of patent protection by providing the possibility to obtain uniform patent protection throughout the territories of the participating Member States and eliminate the costs and complexity for those territories. Thus, it furthers the objectives of the Union, protects its interests and reinforces its integration process in accordance with Article 20(1) TEU.
- (12) The creation of unitary patent protection is not included in the list of areas of exclusive competence of the Union set out in Article 3(1) TFEU. The legal basis for the creation of European intellectual property rights is Article 118 TFEU which falls within Title VII on Common Rules on Competition, Taxation and Approximation of Laws, Chapter 3 on the Approximation of Laws, and makes a specific reference to the establishment and functioning of the internal market, which is one of the shared competences of the Union according to Article 4 TFEU. The creation of unitary patent protection including applicable translation arrangements therefore fall within the framework of the Union's non-exclusive competence.
- (13) Enhanced cooperation in the area of the creation of unitary patent protection complies with the Treaties and Union law, and does not undermine the internal market or economic, social and territorial cohesion. It does not constitute a barrier to or discrimination in trade between Member States and does not distort competition between them.
- (14) Enhanced cooperation in the area of the creation of unitary patent protection respects the competences, rights and obligations of non-participating Member States. The possibility of obtaining unitary patent protection on the territories of the Member States participating does not affect the availability or the conditions of patent protection on the territories of non-participating Member States. Moreover, undertakings from non-participating Member States should have the possibility to obtain unitary patent protection on the territories of the participating Member States under the same conditions as undertakings from participating Member States. Existing rules of non-participating Member States determining the conditions of obtaining patent protection on their territory remain unaffected.
- (15) In particular, enhanced cooperation in the area of the creation of unitary patent protection would comply with Union law on patents since enhanced cooperation would respect pre-existing *acquis*.
- (16) Subject to compliance with any conditions of participation laid down in this Decision, enhanced cooperation in the area of the creation of unitary patent protection is open at any time to all Member States willing to comply with the acts already adopted within this framework in accordance with Article 328 TFEU,

HAS ADOPTED THIS DECISION:

Article 1

Denmark, Estonia, Finland, France, Germany, Lithuania, Luxembourg, the Netherlands, Poland, Slovenia, Sweden and the United Kingdom are hereby authorised to establish enhanced cooperation between themselves in the area of the creation of unitary patent protection, by applying the relevant provisions of the Treaties.

Article 2

This Decision shall enter into force on the day of its adoption.

Done at Brussels,

*For the Council
The President*