

In recent years, users of Europe's trade mark system have been engaged in debates on the role of national offices. But where are patent users? **Tove Graulund** and **Holm Schwarze** of **Zacco** discuss the latest developments

Why Europe needs to ease tensions

TGR: Something has puzzled me for years. If you look at the many letters to *Managing IP*, it is evident that the users and their organisations are very active and vocal on the issue of the Community trade mark (CTM) fees, the OHIM surplus and the role of the national offices (NPTOs) in general. But I wonder where the patent users are in the debate about the role of the NPTOs from a patent perspective. This debate seems to be entirely led by the offices themselves, sometimes with input from the EPO and the European Commission. This is surprising given that you cannot just look at trade marks in Europe; you have to know about the overall situation to fully understand what motivates one behaviour and interest rather than another on the part of the participants in the political debates.

I have concluded that to understand the tension that gets in the way of progress, and to participate in the dialogue about the future of intellectual property in Europe, you need to be aware of the full picture. So I asked some questions of my colleague, Holm Schwarze, who is a European patent attorney.

National offices

TGR: What is the role of the NPTOs in Europe, are they fulfilling that role and how could they fulfil it better?

HSC: Generally, any patent system involves procedures for granting patents, and procedures for enforcing patents against alleged infringers and for challenging the validity of granted patents by third parties. In this context, the role of IP offices is typically focused on providing administrative procedures for the grant of patents and for the opposition of patents, at least during a limited period. These procedures should be performed efficiently and result in high-quality patents.

In Europe, a major part of this role is fulfilled by the European Patent Office as a patent-granting authority for Europe. However, many national IP offices have maintained a national grant procedure for patents limited to their respective territory. Other NPTOs have taken a more radical approach to their EPC membership and closed the national PCT route or even abolished the national granting procedure.

Today the EPO struggles with an ever-increasing workload due to a growth in patent applications resulting in backlogs and in concerns over whether the EPO can maintain the quality of patent examination, which so far has always been perceived as very high. Some of the national IP offices on the other hand seem to struggle in finding their future role in an increasingly internationalized environment.

As the workload for patent offices as a whole increases, the need for qualified examiners is going up as well. In order to stay on top of these developments, the European IP offices cannot afford to compete for responsibilities and they need to find ways of utilizing the available resources to increase the examination capacity without decreasing the quality of the granted patents.

TGR: One of the reasons that users cannot accept diversion of fees from OHIM to NPTOs is that some NPTOs are not financially independent, which means that any surplus they may have remains with the state and is used for other purposes instead of being used to improve the work of the national office itself. Users do not want to see funds from OHIM disappear into state budgets. What do you think of diversion of fees from NPTOs to national budgets?

HSC: The fees paid by applicants and patentees during the lifetime of a patent are not taxes and should therefore be used to cover the costs for the authorities to perform their tasks. Hence, their amount and allocation should be in accordance with the requirement of an efficient and high-quality performance by the IP offices entrusted with these tasks.

National, EPO and PCT systems

TGR: On the trade mark side, the OHIM sent a total of €1,8 million to NPTOs for "services to the CTM and the RCD" as part of the so-called cooperation activities. Is there any transfer of funds from EPO to NPTOs?

One-minute read



The European Commission has recently issued its paper on 'An Industrial Property Rights Strategy for Europe' and is expected to initiate the "comprehensive study of the overall functioning of the Trademark systems" soon. Two years ago, *Managing IP's* cover story, *National IP Offices - Back from the Brink of Extinction*, explored the role of national IP offices in Europe focusing mainly on the debate on patent strategies. A year later, we asked trade mark practitioner and past MARQUES president Tove Graulund to discuss the role of the national IP offices in the context of the debate about OHIM's budget surplus, which has been raging for years. This article prompted an unprecedented number of letters to the magazine, from users, national offices and from OHIM itself. With further change to Europe's patent system now being discussed, Graulund revisits the debate, with the help of her colleague, patent specialist Holm Schwarze.

HSC: Yes, but in a different way. A European patent, once granted, results in a basket of national patents which makes it more similar to a Madrid trade mark registration than a CTM. While the European patent application is pending, the EPO receives the annual renewal fees from the applicants. However, after grant the patentee pays renewal fees to the NPTOs of the countries in which the patent is actually validated. The contracting states in turn remit 50% of these fees to the EPO. This transfer of 50% was decided by the Administrative Council of the EPO back in 1985.

TGR: Trade mark users are very keen to see that a service is supplied for a fee, and users are unwilling to have funds pass from OHIM to NPTOs without any service performed at all. Users see this as unlawful cross-subsidisation from CTM applicants to national applicants. What service do the NPTOs perform for the 50% of the renewal fees?

HSC: The NPTOs keep registers of the validated patents – I think that is it. Most of them also allow European patent applications to be filed with them. However, the vast majority of the services in relation to European patent applications are performed by the EPO itself, in particular the search and examination.

TGR: There seems to be disagreement between the EPO member states about outsourcing of work from EPO to some NPTOs, could you explain what this is about?

HSC: One of the proposed solutions to the increasing workload problem of the EPO has been to use the resources of the NPTOs to perform search or examination tasks for the EPO, that is to outsource work from the EPO to NPTOs. However, this suggestion has been met with concerns from users who worry whether the EPO can maintain its high level of quality of granted patents. Even some contracting states have raised concerns; they have stated that they have given patent granting authority to the EPO, but that this did not involve giving patent granting authority to NPTOs in other countries. As an example, Switzerland abolished the examination system in its own office, and they do not seem keen to have this work suddenly done by an office in say Scandinavia rather than by the EPO. As opposed to this, some other offices are actively seeking work in a drive to increase their income and maintain local expertise. It is evident that these diverging opinions complicate the search for an agreement.

TGR: What do you think of the patent prosecution highway and please explain how it works?

HSC: The idea behind the patent prosecution highway is that NPTOs benefit from each other's work, in particular from their search results. For example, once an applicant has received an allowance from the patent office of the first filing, corresponding applications in other offices may under certain conditions be fast-tracked. While the idea of reuse of work is of course to be welcomed in order to reduce backlogs, the devil lies as always in the detail. For example, this system will only work efficiently if the first-filing office prosecutes the application fast, as the other offices need to wait for the outcome of this examination. One should also bear in mind that there already exists a well-established and very good system of work-sharing, namely the PCT system, which has gained increasing popularity over the years. I tend to agree with those who feel that the patent prosecution highway appears to be a somewhat complicated system, and one wonders whether a further development of the PCT system might not be a more efficient way forward. However, we will have to wait and see whether the patent prosecution highway attracts the interest of applicants and proves a useful tool.

Community patent

TGR: There seems to be almost hectic activity towards creating a Community patent system. The CTM is very popular with applicants, and furthermore OHIM has managed to run procedures so efficiently and cost-effectively that tension between some NPTOs and OHIM has been growing in recent years. Is the Community patent a threat to national patents? If yes, would this explain the previous lack of progress on the Community patent dossier?

HSC: If you mean whether applicants might prefer the Community patent and stop filing national patents, I think the answer will depend a lot on the costs involved. Today, many applicants still use NPTOs for their first filings and follow up with European or PCT applications. I think many applicants will continue this approach also in a Community patent setting. Who knows, if the costs for a Community patent become too high, applicants that are only interested in a few countries may again turn to national patents.

Two of the reasons why the member states have had such great difficulty in making progress on this issue can probably be summarised in two words: language and money. Language, because the need for and legal effect of translations is not yet entirely clear. Some countries – and many users – are of the opinion that the use of a single language would be a good idea in order to create an efficient and affordable system. Others question why for example French or German should be treated differently than say Spanish, Italian or Polish. The other issue is money, and in particular fees and their distribution to NPTOs. Today renewal fees from European patents are an important source of funding for NPTOs. In a Community patent system where all patents have effect in all EU member states, obtaining a consensus on the distribution of fees will certainly not be a trivial task. The EU Council will need to decide the distribution key, and it will be interesting to see what the users have to say about this, when we get that far.

TGR: Language and money – that certainly sounds familiar: it was the reason for the long delay in setting up the CTM system and still cause problems at times. Do you think that the NPTOs would be looking for a form of compensation for the possible loss of the 50% renewal fees from European patents?

HSC: One could easily imagine that member states would be looking at the Community patent fees with great interest, and that they will ask for something very similar, like 50% of the renewal fees. This is what they have received before, and to them it could be logical to ask for it again – even if there will be a significant legal difference between the European patent system and a Community patent system.

TGR: I would not be surprised. It is also clear that the idea of asking for 50% of the CTM renewal fees going from Alicante to NPTOs stem from the financial arrangement at EPO level. It could very well be that this type of thinking is blocking progress of the CTM fee dossier.

European patent jurisdiction

TGR: The other topic that is being discussed at Community level is the so-called European [atent jurisdiction. How do companies prefer to litigate their disputes? Is the current system enough?

HSC: The current system has obvious disadvantages. Today, a patentee facing an infringer that operates in many European countries may have to file actions in all the different countries. This of course multiplies the costs for the enforcement of patent rights. Furthermore, as cases like the infamous Epilady case have shown, the lack of legal harmonisation may mean the actions in different countries result in very different

outcomes. This uncertainty, in turn, may complicate settlement negotiations between the parties. Also, the current system invites exploitation of the complicated system, for example, to drag out litigation or impart high costs on the other party.

A European patent jurisdiction would most likely remove or at least reduce these disadvantages. Therefore, there is no doubt that such a system would be good news for patent owners who want to enforce their patents in many European countries.

However, I am not so sure that a European patent jurisdiction will have equal advantages for smaller players, in particular small companies with mainly national or regional interests. Even though it is cheaper than multiple litigations, a litigation in a European patent jurisdiction may in many cases become more costly than litigation is today in a single country. Therefore, the current system with national courts operating in the local language may well be sufficient and possibly even better suited for patent owners who do not need the benefits of cross-border litigation.

TGR: What do you think could risk blocking an agreement?

HSC: It appears that recently considerable progress has been made, but of course there are still a number of unresolved issues. Robin Stout from the UK IP office has recently identified as many as 10 areas that are still causing problems. Another issue that has been raised is whether the European patent jurisdiction may move forward independently of the Community patent, or whether their fates are necessarily tied together.

London Agreement

TGR: On the trade mark side some parties who are against lowering the CTM fees say that if the fees are significantly reduced, there will be too many trade marks filed and it will become impossible to find a new trade mark. Most users don't agree with this prediction, but if we compare it to the situation in patents, I understand that the London Agreement will make it less expensive to obtain patent rights. Do you think that the London Agreement will encourage an increase in patent filing?

HSC: It is true that the London Agreement has reduced the cost for validating European patents, as the patentee no longer needs to file translations of the entire text of the granted patent, but only of the claims. We are still waiting for more states to join, but when they have, it will become significantly less costly to validate patents. It will be interesting to see how patentees will use the money saved. Some may validate their granted patents in more contracting states, thus using the saved money to pay more renewal fees. Others may increase their filing activity, and yet others may divert the savings to other areas altogether.

While the increase in validations per patent would not negatively affect the backlog of the patent offices and might even provide the offices with increased funding from validation and renewal fees, we will probably see some increase in filings as a result of the London Agreement as well. It is still a bit too early to say how big the effect will be.

Relevance to users

TGR: As we just discussed, some talk about the cluttering of the trade mark registers if the fees are too low. Do you see this as a problem when it comes to patents?

HSC: As patents are granted for technical innovations, there should be room for new patents as long as there is technical innovation. A cluttering of patents may arise when the

requirements for how much an invention has to be different from the state of the art in order to be patentable, that is the requirement for inventive step, is relaxed too much. The scope of the protection awarded by a patent should always correspond to the actual innovative contribution made by the inventor. Fortunately there seems to be an increasing awareness of the importance of this principle by patent offices and law-makers. Both the EPO and the European Commission have recently emphasized the importance of not granting trivial patents.

However, another challenge faced by the patent system is in some respect the opposite one: its ability to adapt to entirely new technical fields. The developments within the fields of biotechnology, computer-implemented inventions, and nanotechnology have all illustrated different aspects of these challenges; and it is only a matter of time before the patent system will be hit by a new technical revolution.

TGR: There is a common misunderstanding about a trade mark registration which is that you get exclusive rights to the particular trade mark when in fact what you get is a right to stop use of the identical or similar marks. A trade mark registration gives no guarantee of freedom to use. Some offices who do not want fees to be too low promote this idea of exclusive right to justify the concept of payment-for-monopoly rather than payment-for-services-rendered which is the perspective of the users. When you get a patent, what is that you get?

HSC: Basically, a patent provides its owner with the right to prevent others from commercially using the patented invention. I also frequently encounter the same misunderstanding you mention in connection with patents: a patent is often misunderstood as giving its owner the right to actually use the patented invention. However this is of course not the case, a point that is often overlooked by non-specialists.

Nevertheless, one should not forget either that a patent can indirectly have a positive effect on its owner's freedom to operate: the patent is at the same time a defensive publication making it more difficult for others to obtain patents close to the patentee's technology. A patent can also be a bargaining chip in cross-licensing negotiations and thus reduce negative effects of other's patents.

Tension remains

TGR: What conclusion can be drawn from this discussion? One thing is clear: there is tension on many levels and lack of real communication.

There is tension between the NPTOs and the supra-national organisations. When the European Patent Network was tested two years ago, some pressures were taken off, as some contracting states were happy at the prospect of searches being conducted at a national level, but it would appear that the discussion is not over at all. The NPTOs will be looking at the Community patent fees and will find it difficult to discuss substantial issues until they have secured some income from the new system. It is unfortunate that the discussion of the CTM fees comes at the same time to complicate matters further.

There is tension between the NPTOs and users. The offices consult the users on the development of their business, but tend to keep the developments regarding their financial situation outside consultation. Users demand to pay only for services rendered, and offices seldom make the effort of explaining what would happen if they were to lose the income related to the EPO and OHIM.

Tension is high inside the supra-national organisations themselves, between management and groupings of unhappy staff – at OHIM, the EPO and WIPO. The nomination of the

WIPO president-elect has done little to reduce this tension as yet. Users do not have much sympathy for complaints from staff who, despite good intentions, come across as spoiled and with no sense of reality.

Tension gets in the way of dialogue and creates trenches full of people with tunnel vision and cotton in their ears – an exaggerated image, but the situation is extremely unfortunate. Many questions need to be explored by all parties in an open and honest environment. Without the 50% European patent renewal fee income, the NPTOs might be forced to put up the national patent fees. Would user be interested in this? Probably not. If users were to accept an increase of funds going from OHIM to NPTOs, would the offices be willing to become transparent and to recognise users as partners in decisions on how to use the funds? Maybe not.

Some NPTOs are not financially independent, so would NPTOs and users be willing to work together to change this? Most likely. Would NPTOs be willing to participate in a benchmarking exercise to identify best practices? Not if they can avoid it.

The tension has persisted since well before it was addressed in *Managing IP's* article in 2006. It needs to end. All parties must join forces to come together to work towards the future. I have no doubt that a lot of good will come of it.



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