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## Comment to European Commission re patent litigation insurance

### 1. Summary of TMPDF position

TMPDF is strongly opposed to a *mandatory* patent litigation insurance (PLI) scheme. The EC's objective in commissioning the study is to make the patent system in Europe more attractive, particularly for SMEs. We believe that mandatory PLI would actually have the opposite effect.

Mandatory PLI would significantly increase the cost of obtaining and maintaining patents, would foster a more litigious culture, would increase the administrative burden on both patentees and Patent Offices, would create more legal uncertainty, would reduce the patentee's ability to direct and control litigation outcomes, and would promote troll behaviour and infringing behaviour. Furthermore, given that the study proposes an exemption for 'globally oriented' companies, the scheme would have an adverse impact on individuals and SMEs relative to large companies. Thus the scheme would be detrimental to European innovation and competitiveness in general, and to SMEs in particular.

### 2. Increased cost

The study proposes that PLI should be compulsory for all European patents (subject to certain exemptions). The suggested premiums are substantial ranging from €60 - €1200 per patent per year for standard cover. So for example, if a patentee has a portfolio of 100 European patents each designating 8 States (AT, BE, DE, ES, FR, GB, NL, SE) then the annual premium would amount to €294,000 - for a maximum insurance pay out of €250,000. Even for just one European patent designating the same 8 States, the annual premium would be close to €3,000 which is about double the annual cost of renewing the patent in those States. This is prohibitively expensive.

The study suggests that the patentee would view the overall costs as acceptable because the costs of litigation would be reduced. However, most companies fund litigation on an ad hoc, contingency basis, or from a special litigation budget, which funding is quite separate from budgets for obtaining and maintaining patents. Insurance premiums would come under the patenting budget, thus reducing the funds available for filing patents. Hence the effect of the PLI scheme would likely be to reduce patenting levels.

Fifth Floor, 63-66 Hatton Garden, London EC1N 8LE

Tel: 020 7242 3923 Fax: 020 7242 3924

admin@tmpdf.org.uk www.tmpdf.org.uk

### **3. Fostering a litigious culture**

As admitted by the study itself, a natural consequence of a mandatory insurance scheme is that it will inevitably encourage more litigation in Europe, which is highly undesirable.

If the insurance also covers damages, as proposed in Option 1 (section 20.1), it begs the question what incentive there is for an alleged infringer of a patent to take a licence. In other words the insurance cover pushes the balance towards litigating rather than settling an infringement dispute.

Introducing mandatory PLI would send a signal to the rest of the world that the EU endorses a more litigious patent culture in Europe.

### **4. Increased administrative burden and inadvertent loss of patents**

The study proposes that the payment of mandatory insurance premiums would be ensured via the existing national renewals process. A patent can only be renewed on production of the insurance certificate. This would have three negative consequences:

- (a) increased administrative burden on the national Patent Offices in checking for the existence and authenticity of the insurance certificates;
- (b) increased administrative burden on the patentee in having to devise a robust process to obtain and produce the insurance certificate in time to meet the annual renewal deadline. Many companies pay their patent renewals via a renewals bureau by way of simple instruction. The PLI scheme would introduce the need for an additional paper trail. Even patentees who are exempt from the PLI scheme would not be exempt from this administrative burden as they would need to produce an exemption certificate in order to renew their patent.
- (c) inadvertent abandonment of patents due to inadvertent failure to produce the insurance certificate before the renewal deadline expired. This could lead to irretrievable loss of the patent. The patent system is complicated enough - as evidenced by the number of re-instatement actions - and another hurdle will only increase the already heavy burden. This is likely to hit individuals and SMEs in particular as these groups cannot normally warrant nor afford the automated records systems employed by larger companies.

### **5. Lack of control of litigation**

According to the study, the patentee would have a degree of control over the conduct and outcome of any litigation covered by the insurance (Section 14.19). However, once the costs of the litigation exceed a predetermined level - set in the study at a mere €10,000 (Section 15.26.2) - then the insurer would take over direct control of the litigation. As admitted by the study, in practice this would mean that virtually all insured litigations would be directly overseen by the insurer. This would be undesirable to the patentee who may wish to drive to a different conclusion to that of the insurer. Litigation management is vital to any potential litigant. Again, as larger companies are likely to be exempt, this will have the

highest impact on SMEs. Large companies could even take advantage of this and deliberately sue SMEs for infringement, even on weaker patents, knowing that the SME's insurer will be pushing for an early settlement.

## **6. Promotion of troll behaviour**

Since a technical risk assessment would not be carried out until the patentee wanted to enforce the patent it means that patents will be insured regardless of merit. This will inevitably encourage the undesirable trend of patent troll behaviour, that is to say entities acquiring patents - even dubious patents - merely to exploit them in Europe without themselves either manufacturing or investing in R&D.

If the insurance scheme is available to patentees from third countries, as is proposed, it would give foreign patent trolls more clout against innovative entities conducting legitimate business in Europe.

## **7. Encouragement of litigation**

The fact that patents will be insured without any upstream technical risk assessment will likely encourage a more litigious environment. Even if the patents are not actually litigated, the insured status would create an air of added strength to a patent that may otherwise be of dubious enforceability, tipping the balance unfairly in favour of the patent owner in any bi-lateral negotiation.

## **8. Other pitfalls in the proposed PLI scheme**

### **8.1 Excluded patents**

According to the proposed scheme, a patent is excluded from insurance cover if the patent is or may be the subject of litigation (Section 15.9). 'Litigation' in this instance includes Oppositions before the European Patent Office (Section 15.24). European patents are opposed for a variety of reasons, sometimes by a potential infringer to test the strength of the patent or to limit the scope of the claims to avoid infringement. Thus an opposed patent is often less likely to be litigated.

If opposed patents are excluded then the benefit of PLI to patentees would be significantly diminished. Furthermore, potential infringers may deliberately oppose patents knowing that this will exclude those patents from insurance cover.

### **8.2 Extent of cover for defendants**

The proposed scheme provides for defence cover but does not provide adequate protection in this respect. The scheme only protects products and processes covered by the defendant's patents (Section 14.15). In practice, products and processes commercialised by a company do not always match the scope of patent protection that the company has managed to obtain, and sometimes the defendant company may not have any relevant patent protection. The study appears to be inappropriately linking patentability with patent infringement. Thus the extent of insurance cover for defendants is less than it might at first appear from the study's summary statements. There seems little justification for insuring defendant patentees as opposed to defendants who wish to practise in a field but do not have patent protection.

Also, a defendant is only eligible for insurance cover for new products and processes if the defendant has conducted a search for third party patents that it may infringe (Section 14.28). This places an onerous burden on defendants, particularly SMEs, who may not routinely conduct such infringement searches and who may not have the resources to do so.

### **8.3 Exemptions**

The study contemplates that 'globally orientated' companies who operate global strategies for patent litigation would be exempt from the mandatory PLI scheme (Section 18). It is envisaged that this may exclude about 50% of the total number of patents (Section 18.4.1). The definition of an exempt company requires clarification as few companies have permanent patent litigation budgets.

## **9. Voluntary scheme**

If a form of European-wide PLI is to be introduced then it should be on a voluntary basis. If a company does opt for insurance cover, then this could be provided on the basis that the company's entire European patent portfolio is insured, so as to generate a high enough level of premium payments for the insurers.

## **10. EU Competence**

The EPC covers more countries than the EU Member States, and the EU has no competence to mandate compulsory PLI for EPC contracting states that are not EU Member States. An EU-mandated compulsory PLI scheme would therefore result in European patents having to be insured in some but not all EPC contracting states, so effectively creating a two-tier European patent.

Additionally, as national patents need not, but conversely cannot be insured under the scheme the business balance between European and national patents will be distorted.

## **11. Level of demand**

As indicated by the study, to date PLI has not proved popular, either to the insured or the insurers. There is little evidence to suggest a mandatory scheme would be any more popular. Thus, in addition to the disadvantages listed above, there is not actually any need for the EU to introduce a PLI scheme.

As there is neither a demand nor supply for PLI, nor any public interest or policy reason for introducing a mandatory scheme, it would seem not only overly-interventionist but also extremely contrary, if not perverse, and potentially dangerous for the legislator to consider introducing any kind of compulsory regime, bearing in mind also that there is no legislative precedent for PLI anywhere in the world.

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