People, politics and patents—2005 Patent Focus Report

For patent owners operating in jurisdictions covered by the Trilateral Authorities—the European Patent Office, the Japanese Patent Office, and the US Patent and Trademark Office —2004 was a busy year. And 2004 patent legislation changes in India look set to trigger further debate and major industrial change. Joff Wild looks at some of the highlights.

EUROPE

Alain Pompidou brings the power of politics to the EPO

At the beginning of July 2004, Alain Pompidou succeeded Ingo Kober as President of the European Patent Office (EPO). It is fair to say that his initial appointment was not welcomed in all quarters, but, since assuming his role, Pompidou has cut an impressive figure—winning round many sceptics with his command of the myriad issues the Office faces and his willingness to be a forthright advocate for an improved European patent system.

Pompidou's background has proved to be a particular strength. A scientist who has worked on a number of international technological and research-based projects, and the owner of a European patent, Pompidou also has long experience of European politics—serving as an MEP for 10 years and also as an adviser to the former French Prime Minister Eduard Balladur. This grounding has informed much of Pompidou's work since taking over at the EPO.

For the first time in many years, for example, in October and November 2004, the EPO held a series of public hearings on its future. At events organised in Prague, Munich, and The Hague, patent attorneys, SMEs, and larger corporations, as well as financial institutions, were asked to explain how they would like to see Europe's patent regime improved. The hearings were a direct initiative of Pompidou's and those attending made it clear that reducing application costs, maintaining the quality of grants, and achieving greater certainty in enforcement were their clear priorities. This gave Pompidou plenty of ammunition to throw at national governments and other organizations, as debates about the future continue.

Pompidou has instinctively realized that much of his job is about playing politics. And because of his experience, politics is something he does very well indeed—in sharp contrast to many others in the European IP community. As a result, he has been forthright and very public in his defence of the EPO, in the face of a growing tendency among some national patent offices to ask for the right to be involved in aspects of the European patent application process. The patent offices believe this would speed the process up, but Pompidou has

responded that quality is paramount and national offices do not have the ability to handle the search phase to the standards required.

The London Protocol

Pompidou has also lost little time in pointing out the apparent contradiction between politicians stating they want Europe to be the leading player in the world's knowledge economy, while at the same time failing time after time to provide the intellectual property infrastructure—in terms of cost and certainty—that is necessary to underpin this. At one meeting, Pompidou is reported to have exerted strong pressure on Gerhard Schroeder to pressure French President Jacques Chirac to ratify the London Protocol. This voluntary initiative among some EPC countries is designed to lessen the translation requirements in European patent applications, so making the process cheaper. It is perceived in France as a threat to the French language, as it will facilitate the use of English. Pompidou disagrees, believing instead that the Protocol's emphasis on cost-effectiveness will make the European patent system more competitive with the US and Japan, especially given the reputation for quality that European patents enjoy.

Community Patent discussions rumble on

Events in Europe during 2004, however, show that Pompidou and other advocates of a strong patent system in Europe still have a long way to go before they persuade the continent's policy makers to share their views. For example, after a brief flicker of hope in 2003, discussions about the Community Patent again became bogged down in wrangles over translations and enforcement. This means that realistically there is very little chance of a pan-European patent right coming into existence any time in the near future.

Slow progress towards a European Patent Court

Meanwhile, the European Patent Litigation Agreement (EPLA), a draft of which has been agreed by officials from 10 member states of the European Patent Convention, including the UK, Germany, France, and the Netherlands, has also run into problems following the European Commission's refusal to endorse the plan. Under the EPLA, a European Patent Court would be created with exclusive jurisdiction to hear cases concerning actual or threatened infringements of European patents, as well as actions and counterclaims for the revocation of European patents, as long as the defendants were domiciled in a contracting state. In this way, the infringement and validity of European patents would be litigated in the same proceedings. Any decision to revoke a European patent would be applicable in all contracting states to the EPLA, making the European patent a unitary right in those countries that signed up to the London Agreement.

Despite enjoying wide support in both the industry and the legal profession, the EPLA looks to be a long way from becoming reality. It still needs to be ratified by national governments, which seems unlikely given continued European Commission opposition to the plan. This was stated most recently in early December 2004, at the first pan-European IP Summit in Brussels. Deputy Director General for the internal market, Thierry Stol, stated that the Commission was supporting the Community patent and would not settle for what he described as the "second best" option that the EPLA presented. "We cannot be satisfied with leaving litigation outside the Community framework," he concluded. Without Commission support there is very little chance of the EPLA coming into force.

Computer-Implemented Inventions directive

Those observing the painfully slow passage of the proposed directive on Computer Implemented Inventions through the European decision making process, will not have been too surprised to see progress stall at the end of 2004. In May, the legislation received a major boost when the Council of Ministers rejected many of the amendments to the directive that had been proposed by the European Parliament in September 2003. Many commentators felt these amendments had actually reduced the scope of existing protection, to the extent that patents relating to inventions such as digital and video cameras would no longer be enforceable.

The Council of Ministers overturned changes made by MEPs in areas that covered exceptions from patentability for computer-implemented inventions. So, while the European Parliament introduced wide exclusions to the use of patented technology for interoperability and data handling, the Council decided these went beyond what was required to achieve the right balance between rewarding inventors and enabling competitors. Under the compromise text therefore, computer-implemented algorithms and business methods, in addition to protocols and data formats, are regarded as inventions. At the same time, the publication of functional descriptions of patented ideas, for whatever reason, is held to be an infringement.

However, before this compromise was submitted to the European Parliament for consideration, the Polish government withdrew its support, meaning the revised directive no longer had the national votes necessary to proceed. In the resulting confusion, a group of 62 MEPs opposed to the legislation petitioned for it to be completely withdrawn and rewritten from scratch. Currently, confusion reigns.

JAPAN

Article 35 helps Japanese inventors reap their rewards

In 2004, the major patent issue in Japan related to compensating employees for their contribution to the development of successful product lines that were underpinned by patents. This had already become a hot topic in 2003, when an intermediate appellate court found in favour of former Hitachi employee Seiji Yonezawa. The company was ordered to pay him $1.5 million for work that had led to the award of three patents covering optical disc technology. But the major headlines were written in January 2004, when the Tokyo District Court ruled that Shuji Nakamura should receive $190 million from The Nichia Corporation as a consequence of his work at the company that had led to the development of the blue light-emitting diode or LED, a technology widely used in video screens and other colour display devices.

Non-Japanese companies were not immune either. In July, Pfizer Japan was hit with a multi-million dollar suit from an ex-employee looking to receive compensation relating to work he had done at the company. The un-named man, who headed the drug laboratory at Pfizer Japan during the early 1990s, claims he invented technology – on which Pfizer subsequently secured patent protection—that allows hypertension drug tablets to be divided easily for adjustment of doses.

These lawsuits, and a number of others, were inspired by Article 35 of the Japanese Patent Law. This states that employees are entitled to reasonable financial compensation for a patented invention they helped to develop in the scope of their employment, with remuneration to be determined after looking at both the employer's profits derived from the invention and the extent of the contribution made by the employer towards the invention. For many years however, the provision was largely ignored; with Japanese companies basically deciding which packages they should offer, if any at all. Nakamura, for example, originally received the equivalent of a $185 bonus, even though, by 2001, 60% of all Nichia's sales revenue was estimated to come from his invention.

New corporate compensation programs

Developments during 2003 and 2004 led many companies to revisit their compensation programs. For example, The Shimadzu Corporation, a hi-tech R&D company, put in place a scheme that guarantees compensation of approximately $100,000, with no upper limit, for a patented product that generates sales over $100 million. Pharma company Eisai's new compensation system rewards inventor employees with 0.05% of five-year sales of a drug,

again with no upper limit. In total, around 43% of Japanese businesses are thought to have removed upper limits on the amount of compensation their employees can now receive.

One major problem employers have encountered is that no one seems to be sure just what constitutes reasonable compensation. In an effort to clarify the situation, the Japanese government introduced an amendment to Article 35. This provided that if the process of reaching an agreement on compensation between a company and an employee is not unreasonable, the employee can have no cause of action. However, if the process is unreasonable, the courts will assess the company's contribution to the invention process and the level of profits generated, when calculating appropriate compensation. Reasonableness will be inferred if there has been a meeting or consultation where the standards for determining compensation are properly disclosed and opinions are freely exchanged. It is an amendment that most commentators believe will be of very little practical help when it comes into force in April of this year.

The issue, therefore, can be expected to rumble on. However, one interesting side note to the whole affair is that at the beginning of January 2005, it was announced that Shuji Nakamura had reached a settlement with The Nichia Corporation, after mediation from the Tokyo High Court, so bringing the company's appeal against the original $190 million award to an end. Under the terms of the settlement agreement, Nakamura was paid ¥840 million ($8 million).

Fighting for IP rights

Employees taking their former employers to court over compensation for patent-related work is part of a wider phenomenon in Japan, where IP-related litigation is said to have doubled in the past two years. Corporate Japan is taking the words of Prime Minister Junichiro Koizumi to heart. In 2003, he told business leaders they should fight what he called the "exploitation of others" by litigating IP infringement in the "national interest". As a result, a growing number of businesses are now much more willing to use the courts, both at home and abroad, as opposed to trying to settle problems in private. This development comes at a time when government data reveals that the average length of a patent infringement trial has halved from two years to one, while the average jury award has tripled to $949,000. At the same time, more than 40% of all the world's patent registrations are owned by Japanese nationals and companies, while they own 20% of all current US patents.

Shortening the patent examination process

Koizumu has demanded that Japan be a country "built on intellectual property". Over the last few years, he has spearheaded a programme to restructure Japan's legal infrastructure to facilitate innovation and IP creation. One problem area that has been identified is the

examination process at the Japanese Patent Office, where the average wait from application submission to examination is 20 months.

In January 2004, Koizumu demanded a “zero period of waiting for examination”. This led to the introduction of legislation into the Japanese Parliament that outlined a timetable for the reduction of the current waiting time. A target of 11 months has been set for achievement by 2013. In the medium-term, the aim is to keep to the present level—no small task when the current accumulated examination backlog stands at 520,000 and is predicted to rise to 820,000, according to JPO figures. In order to reach the targets, an additional 500 examiners are to be recruited over the next five years, with 98 being hired during 2004. In addition, outsourcing of prior art searches is to be increased and the number of bodies authorized to conduct such searches is to be expanded so that, for example, private research companies will be able to offer their services. Formalities will also be reduced.

UNITED STATES OF AMERICA

Dudas stays on

In 2004, Jon Dudas enjoyed his first full year as Commissioner of the USPTO. Appointed on an interim basis by President Bush, following the surprise resignation of his predecessor James Rogan at the end of 2003, Dudas was confirmed in the post in March 2004 and reappointed following the President’s election victory in November.

Dudas has frequently affirmed his commitment to the 21st Century Strategic Plan. This was devised under Rogan’s leadership as a strategy designed to speed up the patent application process in the US, reduce the long backlog of existing applications, and improve the overall quality of all patents being granted. Dudas has warned that if the Plan is not implemented, the number of patents awaiting examination at the USPTO will increase from 500,000 to one million in the next five years.

Fee increases

Given this, Dudas must have had mixed views about a September decision of the Senate’s Appropriations Committee that approved a fee increase for the USPTO, but which stripped provisions to end the diversion of Office funds—something that previously had been overwhelmingly agreed by the House of Representatives. Under the original proposal before the House, all fees generated by the USPTO would have remained with the Office, so ending the traditional practice of diverting a percentage of them to other areas of government. It had been argued both by the USPTO and industry groups such as the AIPLA that an end to

diversion was needed in order to allow resources to be invested in the full implementation of the 21st Century Plan—notably the recruitment of some 300 extra patent examiners.

Under the new regime, the basic patent filing fee will rise to $1,000. The amount payable for each independent claim after the first three will also go up, from $88 to $200, with the fee for each claim after the first 20 increasing from $18 to $50. Because diversion has not been ended, IP owners in the US have reacted angrily to the increases. The full Senate endorsed the committee's decision in November.

Post-grant opposition and review

Elsewhere, however, the 21st Century Plan marches on. One of its major pillars is the development of a post-grant opposition procedure in the US, with the aim of improving patent quality and providing a path for revocation of a grant that does not involve full blown, and expensive, litigation. It can often cost more than $2 million to take a case to first instance conclusion in the US. Having already attracted support from bodies such as the AIPLA, the Federal Trade Commission, and the National Academies' Committee on Intellectual Property Rights in the Knowledge-Based Economy, the post-grant concept received a further boost in June when the House IP sub-committee held a hearing on the subject.

Subsequent to this, ranking Democrat members Howard Berman (D-CA) and Rick Boucher (D-VA) introduced HR 5299, the Patent Quality Assistance Act of 2004: a bill to amend the Patent Act to provide for post grant reviews. Under the proposed legislation, an opposition request must be made within nine months of the grant (or issuance of a reissue patent), or six months after receiving notice from the patent holder alleging infringement of the patent, unless the patent holder otherwise consents in writing. Although introduced during the last session of Congress, the sponsors are hopeful that the Bill will move forward when the newly elected Congress convenes and that it will be on the statute books within two years.

CREATE Act welcomed by the university sector

One piece of legislation that did come into force in 2004 was the CREATE Act. This was signed into law by President Bush in December and has been widely welcomed by the university sector in the US. The Act closes a loophole under which confidential information shared by joint research partners had the potential to undermine the patentability of later inventions made by the collaboration, even though the prior subject matter was not publicly available or otherwise known outside the collaboration. The Act means that university start-ups and other parties in a joint research partnership can share confidential information without creating a risk that resulting inventions will be unpatentable on the grounds of obviousness.

In this way, the Act will protect universities and their partners from legal challenges to their patents and spur research collaborations.

US court gives attorney-client privilege the green light in patent cases

In the US courts, probably the most significant decision was handed down by the Court of Appeals for the Federal Circuit in the *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v Dana Corporation* case. In its September judgment, the Court ruled that courts are not permitted to regard defendants invoking attorney-client privilege as evidence of wilful infringement. In coming to this conclusion, the Court has given clients greater scope to seek attorney opinions on issues relating to patent validity and infringement, without fear of suffering penalties further along the line.

The Court cited the Supreme Court's description of the attorney-client privilege as "the oldest of the privileges for confidential communications known to common law", and came to the conclusion that: "A special rule affecting attorney-client relationships in patent cases is not warranted." The patent bar has welcomed the decision. As well as bringing patent law into line with other areas of the law, it will also save clients considerable sums of money as they will no longer be forced to get opinions solely to guard against charges of wilfulness which, if found, can lead to treble damages. The decision should also make it more likely that clients will use the same law firm for opinion work and litigation.

Revisiting interpretation of patent claims in the Phillips v AWH case

In July 2004, the Court of Appeals for the Federal Circuit announced it would re-hear *en banc* the *Phillips v AWH Corp* case. Described as one of the most important patent cases of recent years, *Phillips v AWH Corp* will affect almost all patent cases in the US that come to trial, by establishing a clear methodology for the interpretation of patent claims by courts.

At issue in the *Phillips* case is the way in which courts look at how patent claims are put together. This has become increasingly confused, with some judges focusing on the patent's specifications, while others use general and/or technical dictionaries to provide a clear explanation of the claim's terms. As a result, the Court has set seven questions to be answered in its final ruling: numbers one to three focus on whether dictionary definitions or the patent specification should be used when a court comes to examine claim construction; question four considers whether both approaches should always be used; question five asks if claim language should be narrowly construed for the sole purpose of avoiding invalidity; question six focuses on the role prosecution history and expert testimony should play in interpreting claim terms; and that question seven considers whether there are any

circumstances under which the Federal Circuit should defer to trial court claim construction rulings. A final decision is expected in the second half of 2005.

INDIA

Patents Act amendments predicted to drive new R&D

On December 27 2004, the Indian government announced amendments to its Patents Act—just in time for the January 1 2005 deadline previously set for meeting their TRIPS (Trade Related Aspects of Intellectual Property Rights) obligations to the World Trade Organization (WTO). To date, Indian manufacturing has been greatly influenced by the provisions of the Patents Act of 1970, which only permitted patenting for processes and product patents. This helped drive the growth of the generics, software, food, pharmaceuticals, and agrochemicals industries in India.

India's recent patent law changes, which bring their intellectual property protection in line with the majority of other countries, will undoubtedly encourage domestic drug companies to invest more heavily in R&D. Outsourcing to India may also increase—potentially delivering a large share of the approximately $50 billion pharmaceuticals outsourcing market through deals spanning all stages in the drug development pipeline, in particular initial R&D, clinical trials, and manufacturing. This could result in a large decrease in the cost of bringing a new drug to market.

The Patents Act amendments are scheduled to go before the Indian Parliament in March 2005—and already there is talk of "fine-tuning" the amendments. Industry worldwide will be taking a keen interest in these during 2005.

Joff Wild is editor of IAM magazine (www.iam-magazine.com)