

Comments on 2nd Venice Resolution

Intellectual Property Lawyers' Association Comments on Second Venice Resolution

I Introduction

The Intellectual Property Lawyers' Association ("IPLA") acts as a representative body for law firms in England and Wales with intellectual property practices who wish to lobby for improvements to IP law. Over 50 firms are members of IPLA, and the vast majority of patent and other litigation and transactional work relating to intellectual property rights in England and Wales is conducted by these member firms. Because of the international nature of IP, member firms are also familiar with how things operate in many other countries across Europe and in the United States of America. Members act for a wide range of clients, from major multi-national groups of companies to SMEs and technology start-up companies, as well as universities and private inventors and investors. As a group, IPLA probably has unparalleled experience of how existing IP systems work in practice in the UK.

IPLA welcomes the Second Venice Resolution ("2VR") passed on 4 November 2006 by the group of European Patent Judges meeting in Venice under the aegis of EPLAW. The Resolution has been discussed by IPLA and this document sets out IPLA's comments. These comments follow the section headings in the Resolution.

II General Principles

IPLA is broadly in agreement with the five general principles.

Principle (iii) does, however, raise two concerns. We agree that the parties should not hold back on their best case, and that amendments and extensions of time should not be routine. Nevertheless, there are two other principles, which are not stated in 2VR, which are also important and which potentially conflict with principle (iii).

First, the parties should not be put to unnecessary expense; and

Second, the procedure should promote informal settlement negotiations during the course of the proceedings, before significant costs are incurred.

These two principles underlie our main criticism of 2VR, in relation to the Written Phase (see below).

IPLA fully supports **principle (v)** (first instance decision on the merits within one year; appeal within one further year). The importance of obtaining a decision within a reasonable period cannot be overstated. There are two main reasons.

First, the uncertainty which results from patent litigation can be very damaging to businesses. While it is important that the parties have a proper time during which to prepare their cases (in most cases, nine months to one year is ample), any additional time prolongs uncertainty without any advantage.

Second, it is generally the experience of members of IPLA that, if proceedings last longer than the time reasonably necessary to prepare the case for determination, costs tend to increase, and this should be avoided.

In order to ensure that cases (and appeals) are decided within one year, a high level of competence of court staff will be required. Most importantly, court staff who are experienced in managing cases will be needed, to ensure that matters are allocated timely hearings, while ensuring that judges have sufficient time when they are not in court to prepare for hearings and to write judgments.

III Service of Proceedings

IPLA fully supports the proposal to devise a procedure for service of proceedings which is “quick, cheap and will provide reasonable assurance that the defendant has notice of the proceedings”. The importance of efficient service procedures cannot be overstated. If it is important (in accordance with general principle (v), as discussed above) that a decision on the merits should be reached within one year, it is unacceptable that service of proceedings should take more than about one week.

The procedure for service on an overseas defendant under the Hague Convention, which involves documents being sent from one government department to another, are unacceptably slow: the experience of IPLA members is that service through Hague Convention channels can take two to three months, even within Europe, while service outside Europe can take as much as four to six months. This makes a mockery of general principle (v). There appears to be no reason, at least within Europe, why the necessary documents should not be served by delivery to the defendant’s address by an agent of the plaintiff’s lawyers. In countries where it is considered necessary for court proceedings to be served by a bailiff, huissier or other court official, the documents can be sent for service to the appropriate court office directly by the plaintiff (or by the European Patent Court registry).

IPLA supports the proposition that a patentee should be required to give a local address for service in every country in which a patent is registered (at least within the European Union), so that procedures for service overseas of patent revocation proceedings are not required.

If, for any reason, this is not possible, then service on a patentee should be achieved by the plaintiff sending the relevant documents direct to the Patent Office of the country at which the patentee’s EU address for service is located. That Patent Office would then effect service on the patentee in accordance with local procedural rules, without going through the Hague procedure.

Service of proceedings for infringement is normally less of an issue, since there is usually at least one defendant which is based in the relevant jurisdiction. Problems can still arise where an overseas entity is a necessary and proper party, on whom service under the Hague Convention procedure is required. One solution might be for the rules to provide that notice of the proceedings be given as soon as proceedings commence, by courier, “advice of delivery” post or some other method whereby due delivery can be established. The overseas party would then be expected to comply with the procedure, notwithstanding that formal service has not taken place. However, there could be no sanctions imposed by the court for non-compliance with the procedural rules until formal service takes place. Once formal service is effected, the party will be expected to have followed the procedure, so that no, or

only very limited, time will be permitted for it to “catch up”.

IV General Structure of Proceedings and Case Management

IPLA’s main area of concern is in the requirement that all arguments and evidence be served with a written pleading at the outset. We are aware of proposals that some form of exchange of arguments and the like take place before the formal commencement of proceedings. However, unless the requirement is clearly set out in the procedural rules, it will not be properly followed, and parties will end up playing the sort of procedural games that the EPLA procedure is designed to avoid.

There are three main concerns with the 2VR proposal, namely: delay; the potential for procedural unfairness; and inefficiency leading to wasted cost.

Delay: A plaintiff has as much time as he wants in order to prepare his written submissions and supporting documents and evidence. In a complex case, the process could take as long as six months if the job is to be done properly, particularly if experimental proofs are required. This means that, although the formal procedure might take only one year, the effective duration of the litigation would be significantly greater than one year, there being a significant delay before proceedings can be started. Even in the simplest cases, a plaintiff will have several weeks’ work to do before being able to start proceedings.

Potential Procedural Unfairness: The provision that the defendant has only three months from service of the plaintiff’s full case in which to prepare its own full case will put defendants under undue pressure. Unlike the plaintiff, the defendant has no open-ended period in which to prepare its case. Three months is a very short time for a case to be prepared in full. In most jurisdictions, defendants (and plaintiffs) have at least six months to assemble their full case on validity and infringement, in a series of procedural steps.

Inefficiency Leading to Wasted Cost: The proposed rule requires the plaintiff to set out its case in full, with all necessary proofs, before it knows what matters will in fact be disputed, and without being in a position to deal with any positive case or new prior art which the defendant may raise. Further, in some cases, a defendant may rely on prior art which was unknown to the plaintiff and which leads the plaintiff to capitulate or at least substantially to re-cast its case.

This will lead to significant inefficiency: the plaintiff will be obliged to prepare evidence to prove facts which the defendant might admit, as well as being unable to answer the defendant’s positive case or new prior art.

Thus, in the 2VR procedure, the plaintiff would have wasted a massive amount of time and effort (and hence, cost) in preparing its case before the defendant is even aware of it.

A similar situation would obtain where, as a result of the defendant’s submissions, the plaintiff decides to seek to amend its patent.

In most European systems, there is a phased progression from an initial reasonably general statement of the parties’ cases, proceeding through to final submissions which elaborate the arguments in areas where there is dispute, and introduce supporting documents and evidence. During this process, there is a funnelling of issues, as the parties identify where the main

areas of dispute are.

As a result, the parties do not need to embark on the most expensive stage of the proceedings, which comprises the preparation of fully elaborated arguments, the identification and production of necessary supporting documents and the preparation of evidence from witnesses of fact and experts, until they have a clear understanding of the other side's case so that they can direct their work in this stage at the matters genuinely in issue.

This type of phased proceeding satisfies the two additional principles outlined above in the comments on Section II, of avoiding unnecessary expense – because the most costly procedural steps are postponed until after the parties know what the areas of dispute are – and of promoting settlement opportunities – because the parties are put into position where they can understand the case and take a view on the merits, to enable them to seek to negotiate a settlement before the most costly procedures are undertaken.

IPLA accordingly recommends the Written Phase be divided into at least two parts. The first part would provide for the exchange of statements setting out each party's case at a relatively high level of generality. In a claim for infringement, the plaintiff's pleading would identify the infringing product, and which claims of the patent are alleged to be infringed, and would summarise its reasons why those claims are infringed. In a claim for revocation, the plaintiff would identify the prior art and provide a summary explanation of why the patent is invalid. The defendant would then serve a pleading setting out its own positive case in general terms, and also responding to the plaintiff's case. In this response, it would identify what allegations by the plaintiff are admitted (for example, publication dates of the prior art, the fact of sales of the accused product, the presence in the accused product or in the pleaded prior art of some of the integers of the claims etc; and would provide the defendant's response to the allegations which are not admitted). We believe that four to six weeks would normally be adequate for the preparation of a statement of this nature.

In reply, the plaintiff would in turn respond to the defendant's case, making admissions where appropriate and otherwise giving its response to allegations which are not admitted.

The answer and the reply would also identify areas where the relevant party considers that the pleading of its opponent is inadequate, providing insufficient information or explanation, or otherwise.

We suggest that the threshold test should be that the court, reading the statement, should be in a position to assess whether the party has put forward a properly arguable case. The procedure should admit the possibility of the court determining that a party's statement raises no properly arguable cause of action (or defence) so that it enters judgment against that party, terminating the first instance proceedings at this stage.

Following the sequential exchange of pleadings, the parties should have a clearer understanding of what the issues are. They are then able to prepare their cases in detail. They would then follow a second stage, the end result of which would be a detailed written submission by each party, accompanied by relevant documents and evidence. Since the parties have already identified the matters in issue between them, there is no reason for these written submissions to be sequential: they can be exchanged simultaneously, which would lead to a significant reduction of the time which the proceedings would take. They can then be followed within, say, four weeks, by further detailed submissions, which are limited to

responding to points made in the other side's main written submissions.

2VR suggests that there should be a time limit for the plaintiff to put forward any proposed amendment to the patent in suit. Since EPC 2000 permits limitation of the claims of a patent at any time, it is inappropriate for such limitation to be prevented in the course of legal proceedings. Nevertheless, if a plaintiff delays in proposing amendments, it may require additional evidence and submissions at a late stage. We accordingly recommend that patentees should be expected to submit any proposed amendments following the end of the first "general" pleadings stage: but it would not be prevented from proposing amendment subsequently, subject to paying costs in respect of wasted work by the defendant.

(ii) The Interim Phase: 2VR proposes that the court deals in one hearing with all the procedural disputes which, in English litigation, are dealt with on an ad hoc basis as and when they occur. IPLA supports 2VR approach, since dealing with these issues at one time should result in a significant saving of costs.

IPLA also supports the use of the Interim Phase hearing by the court to identify and delimit the scope of oral evidence at the Oral Hearing.

Document Production: 2VR contains no provision for document production (save in the context of "Section V – Protective Measures – Saisies"). In many cases, it is important for the preparation of a party's case that it has access to documents in the possession of the opposing party, but it is not necessary that those documents be obtained in a draconian ex-parte procedure such as a saisie. IPLA considers that the procedural rules should permit limited production of documents to be ordered, but only if the party requesting such production establishes that the documents are likely to be useful to the court, to enable it to decide the matters in dispute.

2VR contemplates that the Interim Phase hearing takes place after the parties have completed their detailed written submissions. IPLA considers that it would be useful to include the option of holding an Interim Phase hearing at the end of the initial round of submissions, to deal with issues such as document production, confidentiality, any inadequacies in the parties' written submissions, and the disposal of unarguable points. It may be appropriate, if document production is sought at this stage, to require the party requesting production to establish that it needs the document in order to prepare its own detailed submissions.

It may be advantageous to set a date for the main Interim Phase hearing, which would follow exchange of the parties' detailed submissions, at the close of the first round of submissions. At that stage, the parties should be in a position to estimate the time they will need to prepare their detailed submissions, and the date could be set by agreement of the parties or by decision of the court on the basis of written submissions by the parties. Setting a date at this stage will help avoid delay during the preparation of written submissions.

(iii) The Oral Hearing: IPLA supports the proposed target that, as a general rule, the Oral Hearing should not last longer than one day. However, this is subject to two important caveats.

First, it is essential that the judges should have read the parties' detailed submissions and supporting documents in advance of the hearing.

Second, if there will be oral evidence at the hearing, additional time would need to be allocated.

IV Protective Measures – Saisies

2VR is broadly similar to the proposals in the draft EPLA Rules of Procedure, and IPLA has no major comments.

VI Provisional Measures

The same point applies largely to this section. We note, however, that the Rules of Procedure do not lay down the criteria for granting preliminary injunctions.

We recommend that the most important criterion for granting an interim injunction should be the court's assessment of the strength of the parties' cases. However, this should not be the sole criterion, since, as is accepted in a number of jurisdictions (most notably, England), the grant of a preliminary injunction can cause significant harm to a defendant, and gain a plaintiff very significant advantage, even though it is granted at a time when the defendant is not in a position to have fully investigated its case. The court should accordingly give some consideration, in addition, to the "balance of the risk of injustice", so as to favour withholding the grant of an injunction, even where the case on the merits appears strong, where the damage to the defendant would be very great; and to favour granting an injunction where the case on the merits may be less strong, where the damage which the defendant might cause to the plaintiff would be very great.

The risk of injustice might be reduced if the court is in a position to grant a preliminary injunction before the defendant has started selling its products. IPLA accordingly recommends that the Procedural Rules should permit proceedings to be commenced where there is evidence that the defendant is about to commit an infringement, and not only when there is evidence that an infringement has already taken place.

VII Damages

IPLA supports the 2VR proposal that the assessment of damages should follow the same procedural steps as for the case on the merits. However, the financial assessment can be more detailed and burdensome than the case on the merits, and IPLA would accordingly question the assumption that "a reduced timetable" would necessarily be appropriate.

It is clearly necessary that any assessment of damages should start with the disclosure of documents relating to the infringer's sales. It is important that strict rules be in place to preserve the confidentiality of the information in such documents.

In addition, the patentee is likely also to hold relevant documents, for example relating to its profit levels (if damages on a "lost profits" basis are to be claimed) or licences to third parties (if "royalty" basis damages are to be claimed). Accordingly, the patentee should give disclosure of relevant documents at the same time as the infringer (also subject to confidentiality rules).

Conclusion

IPLA generally supports the proposed procedure in 2VR, subject to the division of the Written Phase into two stages, which IPLA considers is necessary if the parties are not to be put to unnecessary expense or to be deprived of the opportunity of settling when they have an appreciation of the nature of their opponents' case, but before significant costs have been incurred.

Intellectual Property Lawyers' Association
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