

# Patent *issues*

Spring 2017

## Brexit update



As Theresa May has now formally triggered the process for the UK to leave the European Union (EU), the two-year process of negotiations begins. This will lead to Britain leaving the EU and will have implications for British businesses and universities and for trade relations with the EU. The Prime Minister is expected to propose a transitional period after 2019 to phase-in new arrangements.

While taking the UK out of the single market, Mrs May is expected to negotiate a deal that keeps close trade relations with Europe. She was expected to authorise ratification in the of the Unified Patent Court Agreement,

leaving only Germany to ratify before the new patent system begins, but this project is on hold pending the snap election called on 8 June. The project may yet get under way in December this year or early 2018. See pages 15 and 16 for news from Germany and observations from China.

For Maucher Jenkins business will remain as usual. As Maucher Jenkins is a Pan-European firm with offices in Munich, Freiburg, Basel, as well as London, Farnham, Cambridge, Edinburgh and Beijing, we are well prepared to continue to advise our clients around the world regarding IP rights within and outside the EU.

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# EPO increases its output

By Hugh Dunlop and John Parkin

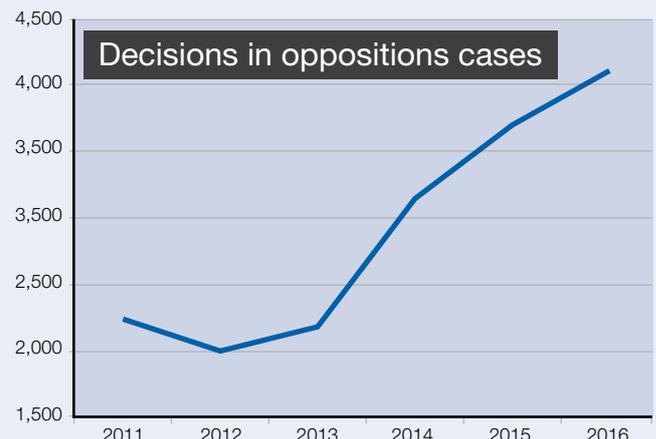
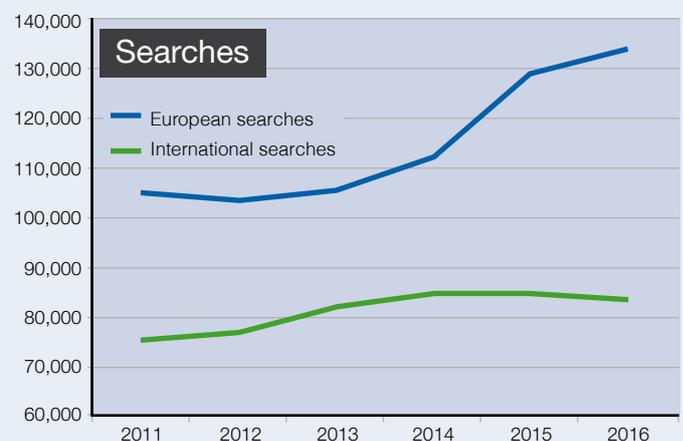
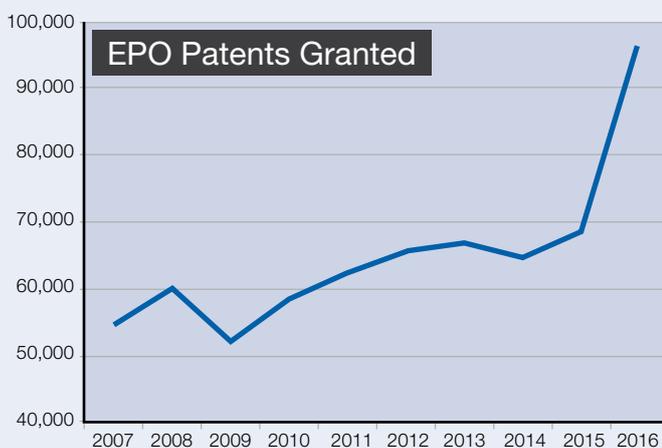
The European Patent Office showed a significant increase in its output across its various functions. In particular, the number of patents proceeding to grant showed a **40% increase**.

Anecdotal indications are that this merely represents a focus on “easy” cases. For example, if applications in which the European Search Report shows only “A” category citations are given top priority. But we believe there is a genuine improvement in productivity at the office.

Output of search reports, first examination reports and oppositions are also showing significant improvements.

The historical trend of outcomes of opposition proceedings remains; around one third of patents survive opposition in amended form, one third are revoked and in one third of cases the opposition is rejected.

Of particular note is that, according to EPO figures, the backlog of work has fallen by 25% over the last two years – i.e. the total months of work in the backlog (searching, examination and opposition) has dropped from 19.5 months at the end of 2014 to 14.7 months at the end of 2016.





John Parkin

## Timeliness

The backlog does not tell us what is the average time to grant for a European Patent application (those figures are no longer published), but the EPO claims to have reached its target under the Early Certainty from Search initiative of delivering all search reports (with written opinions on patentability) within **six months** of filing of applications with the EPO.

## EPO aims for 12 months average examination time by 2020

The EPO says, in its 2016 Annual Report, that the time taken to conclude the examination procedure is already falling and has announced an **aim to bring this down to 12 months** on average by 2020.

Among the initiatives to achieve this goal, the Office is selecting cases at random to inform applicants about the intended start of examination. This is intended to prompt the applicant to consider withdrawal and associated examination fee refund. Withdrawals before examination reduce the stock of pending applications and allow the EPO to focus on applications in which applicants have a real interest.

By 2020 the EPO also aims to cut the overall duration of opposition procedure for “straightforward” cases to within 15 months.

The Office is achieving these impressive results with an increase in numbers of Examiners but no increase in total staff.



## Designations continue to increase

The top six most attractive states in which to designate EP Patents remain (in order): Germany, France, UK, Italy, Spain and Netherlands. In 2016, there was a 2% increase in designations outside the top 3, with Norway and Poland showing the greatest increases. This builds on similar increases of 3% in 2015 and 5-6% in 2014.

## UK Applicants

The number of EP applications originating from the UK rose by 1.8% in 2016, with 80 applications per million inhabitants. Particularly noteworthy was an increase of 22.4% of applications in the Medical Technology field, 20.9% in the Biotechnology field, 13.9% in the Digital Communication field and 17.0% in the Computer Technology field.

Relative to other countries, the UK has a broad range of patent filing interests. The even distribution of UK applications across technology sectors contrasts with applications from China which are heavily biased to Digital Communication (31%) and Computer technology, or Germany where the emphasis is in Transport and Electrical Machinery, Apparatus, Energy.

# EPO enlarged board upholds partial priority for broadened claims

No more poisonous priorities or poisonous divisionals

By Hugh Dunlop and Tim Young

Back in 2014 we wrote about the strict “same invention” rule used to establish whether a European (or UK) patent application is entitled to priority. We wrote that the test is as strict as for added subject matter.\* We also wrote about the draconian consequences when one tinkers with the scope of the claims of a patent when filing a UK or EPO application claiming an earlier priority date. In the worst case, the earlier application can itself be prior art to the patent application (e.g. a divisional) claiming priority from it. This is the dreadful and bizarre concept of a “poisonous priority” or “poisonous divisional”.

We are pleased to report that the EPO Enlarged Board of Appeal has issued its decision G01/15 on the subject of partial priorities and has now put to rest the notion of poisonous priorities and poisonous divisionals by relaxing its criteria for partial priority so that **a later claim to an invention defined broadly can always benefit from partial priority to a part of its claim scope that has been described in a priority application.**

A claim that can notionally be separated into two claims of different scope, one entirely within the other, can have

two priority dates. The narrow disclosure in the priority application is not part of the state of the art under Art. 54(3) EPC/Patents Act s.2(3) for the narrower claim, because the narrower claim is entitled to the priority date. The rest of the later, broader claim is novel over the content of the earlier application but is only entitled to its date of filing.



The judgement is quite lengthy. There were many *amicus* briefs, mainly in favour of abolishing the notion that a claim can be anticipated by the very application from which priority is claimed. The judgement makes extensive reference to a memorandum of FICPI that formed part of the *travaux préparatoires* to the EPC back in 1973 and sets the problem out in a logical analysis of claims to the type “A or B” where only A is entitled to priority. The decisions of the Boards of Appeal to date have taken different approaches to whether such a claim is entitled to partial priority.

In a nutshell, the chemical and biotech divisions tended to apply a strict approach and only permitted partial priority where the broadening of the claim gave rise to a “*limited number of clearly defined alternatives*.” Other boards, particularly electrical and mechanical boards, took a more relaxed approach.

\* <http://www.maucherjenkins.com/assets/Publications/patent-issues/claiming-priority.pdf>



Tim Young

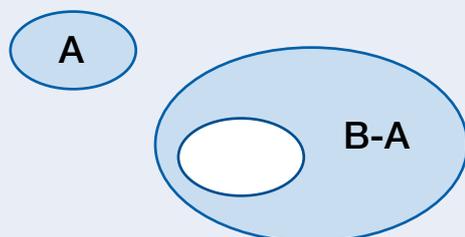
The latter approach is perhaps best illustrated by the decision T135/01, which related to a method and apparatus for driving an electric motor and involved the claim expression “*the interval between the first and second [switching] steps is between a quarter and three-quarters of the period (Tau) of a dominant frequency of vibration of the motor*”. In that case, the priority document described only that the period in question was “*approximately = Tau/2*”. The question arose as to whether the broader claimed period could be notionally divided into a range of approximately in the centre that was entitled to priority (and everything else that was not). If it were all-or-nothing, and the claim could not be seen to have partial priority, then the entire claim would lack novelty because the content of the priority document had in the meantime been made available to the public. That Board recognised partial priority to the narrower central range without requiring that it had to be spelt out in the claim.

We are pleased to say that the Enlarged Board of Appeal has endorsed this more relaxed approach to partial priority, concluding that “*the EPC does not contain any other requirements for recognising the right of priority beyond the same invention, whether for simple, multiple or partial priority*”.

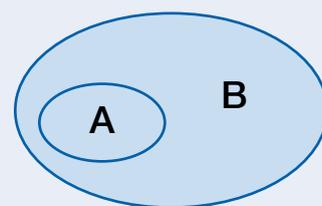
The Enlarged Board did not quite admit that it was vacating its earlier decision in G02/98. It regarded that decision as one that relates to multiple priorities and noted that it considers the partial priority situation to be a sub-group of multiple priorities. So it may yet be that if an applicant is filing cascading applications from which different priorities are to be claimed, it would be wise to clearly define the different species or groups that are to be entitled to different dates.

## G01/15 in pictures

Consider a priority application that contains specific subject matter **A** and a later application claiming priority from that priority application pursues a claim relating to subject matter **B**, a more general example of **A**. (See right)



The core of the test in G01/15, once the disclosure of the priority application has been correctly determined, is to conceptually divide the claimed subject matter **B** into a part entitled to priority, i.e. **A**, and a part not entitled to priority from the priority application, **B-A**. (See left)



**B-A** is only entitled to the filing date of the later application, however no self-collision occurs, as there is no overlap with the disclosure of **A** in the priority application for **B-A** (i.e. **B-A** is novel over **A**).

**Note**, however, that if **A** has in the meantime been published, it is necessary for **B-A** to be inventive over **A**. This was the situation in T135/01. In that case, perhaps surprisingly, the Board found the wider part of the range to be inventive over the disclosure of the narrow part of the range. (The Board found that an interval outside the range “*approximately Tau/2*” of the dominant frequency of vibration would not have been obvious, in part because the published disclosure set out the importance of that value and dissuaded the skilled person from considering other values)

# EPO enlarged board upholds partial priority for broadened claims (cont/...)

## What would G01/15 have meant to the outcome of different cases in the recent past?

It would surely have made a difference to validity in *Nestec v Dualit* (reported in 2013 **Patent issues**). In that decision, partial priority was denied and as a result, the priority application (filed in the UK) was part of the state of the art under section 2(3) of the Patents Act 1977. A distinction was drawn over the earlier (and more generous) UK case of *Unilin v Berry Floor* (reported in Winter 2004 **Patent issues**) noting that the part of the *Nestec* claim that was not entitled to priority was not a clearly defined alternative. But *Unilin* was not about clearly defined alternatives. It was more about whether different features were separable. In any case, the “clearly defined alternatives” notion is now defunct (an unnecessary condition) in light of G01/15.

*Nestec* would have been decided differently, because either the later claim was broader (in which case it could be awarded partial priority under G01/15) or it was different (in which case the priority application was not novelty-destroying).

It would probably not have made any difference in *Hospira UK Generics Ltd. v Novartis AG* [2013] EWCA Civ. 1663, because in that case Lord Justice Floyd took the view

that the problem for Novartis in seeking to establish that its claim (claim 7) was entitled to priority was that the disclosure of the priority document was either too general or too specific. The individual features of the claim were present in the priority document, but there was no disclosure linking them together.

Turning to the three *Samsung* cases discussed in our 2013 edition of **Patent issues** (see panel below), these are cases in which the content of the respective priority applications had in the meantime been published by submission to a standards organization. In such cases the publication is prior art in relation to the part of the claim that is not entitled to priority.

Only the first of the three decisions might have had a different outcome, but then only if the inventive step analysis fell in Samsung’s favour (as for T135/01 where the analysis fell in favour of the patentee). The broad claim to “Quality of Service (QoS) parameters” was probably supported by “data rate” (perhaps also by service type or input frame length). A claim limited to “data rate” could be entitled to priority. But the claim to “QoS parameters [other than data rate]” would have to be inventive over the disclosure to the public standard submission of data rate (in the context).

## Brief summaries of three *Samsung v Apple* cases:

### *Samsung I*

In *Samsung I*, the priority document disclosed a number of parameters service type, input frame length and data rate, whereas the later claim generalized to “Quality of Service parameters” and it might well have been decided that at least one of the disclosed parameters (e.g. data rate) was a species of QoS parameter whereby the claim was divisible into a narrow part that was entitled to priority and a broader part that was not.

### *Samsung II*

*Samsung II* would not have been decided any other way – the priority document was completely silent on one of the features of the claim and the standard that was published in the meantime included that feature.

### *Samsung III*

*Samsung III* is a case where the claim was in one respect broadened but in another respect narrowed – from a scheme for allocating I/Q channels and OVFS codes to a scheme that was silent on allocating OVFS codes (broader) but focussed on a particular I/Q channel allocation (narrower). The particular I/Q channel allocation was disclosed in the priority application, but only in combination with allocation of I/Q channels and OVFS codes. This was not like *Unilin*. It was more like *Hospira* (although that decision came later).

In the case of the Samsung '404 patent, the patent related to an improvement on High Speed Downlink Packet Access (HSDPA) introduced in 2002 in 3GPP Release 5. The improvement concerned High Speed Uplink Packet Access (HSUPA). UMTS Release 5 defined a number of existing uplink channels and the patent concerned allocation of I/Q channels in different scenarios of such existing "legacy" channels. The priority document described a scheme for allocating I/Q channels and OVSF codes and gave a table of examples, the first line of the table giving a specific example of an I/Q channel allocation in the case of a single transmittable legacy channel. Samsung's claim was focussed on that one example and was silent on allocating OVSF codes.

Case #	99.9% PAPR (db)	I CHANNEL			Q CHANNEL		
		PHYSICAL CHANNEL	OVSF CODE	$\beta$	PHYSICAL CHANNEL	OVSF CODE	$\beta$
40 (PROPOSED METHOD)	5.49	E-DPCCH	64, 1	30	DPCCH	256, 0	15
		DPDCH	64, 16	15	HS-DPCCH	256, 64	30
		E-DPCCH	4, 1	234	E-DPCCH2	4, 2	34
41	6.19				DPCCH	256, 0	15
					E-DPCCH	64, 1	30
		DPDCH	64, 16	15	HS-DPCCH	256, 64	34
		E-DPCCH	4, 2	34	E-DPCCH2	4, 2	34
42	5.61	E-DPCCH	64, 8	30	DPCCH	256, 0	15
		DPDCH	64, 16	15	HS-DPCCH	256, 64	30
		E-DPCCH	4, 2	34	E-DPCCH2	4, 2	34

Fig from *Samsung III* (European Patent UK No. 1,714,404)

## And where does this leave UK Patents Act 1977, section 6?

This section of UK domestic law purports to say that "for the avoidance of doubt" anything you do between the priority date and the later filing date in relation to matter disclosed in the priority application does not count against you. So you should be free to publish the content of the earlier application without fear of it being later cited against you. Fair enough? "Well – no" said Justice Jacob (as he then was) in *Beloit v Valmet* [1995] RPC 705 – only if there is an effective priority declaration. This brought PA section 6 into line with EPO

decisions. Jacob J. said the words "for avoidance of doubt" means that section 6 is mere clarification and has no substantive effect. His decision was not challenged on appeal at the time and has remained good law. The CIPA Guide to the Patents Act cites *Nestec v Dualit* as being consistent with *Beloit*. Whereas *Nestec v Dualit* is now in doubt following G01/15 (see above), this does not bring section 6 back into full force and effect.

As we can see from the examples above, if the priority claim is invalid, the publication of the contents of the priority document will constitute part of the state of the art in respect of the part of the claim that is not entitled to priority and can invalidate the patent.

This will remain so if the later application claims something more specific than the disclosure of the priority application (as in *Hospira* and probably *Samsung III*) or simply different from the disclosure of the priority application (as in *Samsung II*), while the content of the priority application will not be novelty-destroying, but can be cited for obviousness if published in the interim (as in the *Samsung I* scenario and in T135/01).

So it is far from true to say that publication between the priority date and the later filing date does not count against you. Section 6 remains moribund.

## Conclusions

### Our take-away advice does not change much.

- Don't assume that the filing of a priority application means it's safe to publish. Only if the invention is not going to be developed further is it safe.
- Be very wary about tinkering with the scope of the claims when filing in the UK or the EPO based upon an earlier priority application.

### What changes is this.

- You're not entirely stuck with the scope of the disclosure of the priority application. A generic expression can be supported by specific examples and it is not necessary that the claim language itself calls out the generic and specific claim scopes.
- This does not mean you can broaden a feature of the claim and narrow some other feature, even when the narrow feature is disclosed in the priority application. Partial priority in such a claim may be denied if the features in the priority application were so linked that they cannot be considered in isolation.
- You can add further embodiments, examples or claims (dependent or independent) to the later application within the priority year, provided there is unity of invention with the claims that are entitled to priority, and we can now broaden the claims to encompass the new embodiments or examples, BUT when all the dust has settled, if the claims that are ultimately granted do not encompass the originally described invention (e.g. because they draw from later filed embodiments), there will be no partial priority, and this can be fatal if the subject matter has in the meantime been disclosed to the public or has otherwise entered the public domain. (In any event, new claims to further embodiments or examples will not benefit from priority and indeed the further embodiments or examples will give rise to a new right of priority that can be claimed later - Paris Convention Article 4F.)

# UK court sets FRAND rate for 4G SEPs

By Hugh Dunlop

The eagerly-awaited judgement on licensing of standards essential patents (SEPs) for 4G (and earlier) mobile radio standards in the case *Unwired Planet v Huawei* [2017] EWHC 711 issued on 5 April. This is the judgement on the “non-technical” trial following three technical trials on individual patents (of which UP won two out of three). The judgement from Mr Justice Colin Birss runs to 166 pages and rigorously analyses issues such as royalty stacking, hold-up by SEP owners and hold-out by manufacturers as well as non-discrimination and abuse of dominance.

The patentee, Unwired Planet, won on most points, and a royalty rate was set that was a little more than half the rate they were seeking and 50% more than the rate Huawei were offering. Unwired Planet will get an injunction if the license is not now executed on the adjudicated terms.

Huawei’s worldwide sales were said to be \$30bn per year. The royalty to UP (for its 6 essential patents) is of the order of \$18m per year.<sup>1</sup>

The suit started in March 2014 when Unwired Planet (once a member of the WAP Forum but never a member of ETSI), having acquired certain SEPs from Ericsson, and having failed to engage with various companies over license terms, sued Google, Samsung and Huawei for infringement of six of the patents. Google settled in 2015 and Samsung settled in 2016 but Huawei held out to trial.

Going into trial, the positions of the parties over royalty rates for 4G/LTE handsets in the UK were a factor of 10 apart:

- Unwired Planet: 0.55%
- Huawei: 0.059%

UP were offering lower rates for a global license, but Huawei wanted to negotiate for the UK only. A key finding of the Court was that the market was a global one and the dispute was a global dispute, so it was Fair, Reasonable and Non-Discriminatory (FRAND) for UP to offer and expect a worldwide licence.

For a global license, the parties’ respective positions were not quite so far apart:

- Unwired Planet: 0.13%
- Huawei: 0.04%

The Court considered the “Vringo problem” in which a licensor’s offer and a licensee’s bid might both be FRAND. Can a FRAND royalty be a range? A range does not allow the Court to resolve the dispute. The Court’s task was to find the “right” rate in the circumstances. Such a royalty rate must be FRAND, but this is not to say that a rate higher than the “right” FRAND rate is anti-competitive nor that every rate for a licensee must be the same.

There does not have to be “*hard-edged non-discrimination*”. In other words, there is no prohibition on different prices being charged to different licensees, provided the terms are not so dissimilar as to distort competition.

<sup>1</sup> Based on 4G handset figures. Huawei also have 7 patents essential to infrastructure.



Hugh Dunlop

How should a FRAND rate be determined? One approach is the top-down approach by which a reasonable total royalty is set and is carved up amongst all the holders of SEPs. The better approach is a comparables approach finding the nearest comparable existing license and multiplying the rate for that license by a factor (“R”) representing the relative value of the UP portfolio relative to the most comparable portfolio. In this case the closest comparison was an earlier Ericsson license that included all the SEPs in issue, for which the royalty rate was designated as “E”. So the task was to find  $E \times R$ .

In licensing SEP portfolios of any size, some sort of patent counting is “the only practical approach”. In some cases the numbers of patents declared as SEPs can be vast (e.g. 7,077 families for LTE handsets alone). Various studies indicated that only a portion of declared IPRs are actually essential.<sup>2</sup> Birss J. applied

a 28% overall essentiality ratio for 4G, because evidence showed that Unwired Planet had themselves used that figure earlier.

UP had 6 handset patents and 7 infrastructure patents. According to UP this equated to 1.69% of the total, whereas according to Huawei, it was only 0.33%. This difference – i.e. how to count the total number of SEPs applicable to the standard in question – represented a major part of the difference between the positions of the parties.

Much of the evidence towards resolving this difference was confidential and (for the present) redacted from the decision. Birss J. calculated total aggregate royalty burdens for purposes of cross-checking the calculations. By this method, and based on the evidence before him, he arrived at 13.3% total aggregate royalty according to Huawei and 10.4% according to UP. (Other approaches arrived at

total royalty burdens of 8%, which he considered too low and 43% which was “far too high”.)

At this point in the judgement, Birss J. noted the high numbers of patent applications filed by Chinese companies in China only that are declared as essential, and declined to include these in the total. He said “*a serious player in the telecommunications market, including a major Chinese company, would likely file SEPs in the US and/or Europe*”. For this and other redacted reasons, the royalty rate for China should be half the rate for the rest of the world.

He also said “*taking a cut-off of patents with a pre-2009 priority date is a FRAND approach to licensing Release 8 [but] once later releases exist and are licensed, a method which gives no value at all for the technology in later releases is flawed and does not reflect FRAND.*”<sup>3</sup>



<sup>2</sup> One such study was David J. Goodman and Robert A. Myers 3G Cellular Standards and Patents, published by Fairfield Resources International, Inc. 2005. That study is extensively criticised by Donald L. Martin and Carl De Meyer Patent Counting, a Misleading Index of Patent Value: A Critique of Goodman & Meyers and its Uses [2006].

<sup>3</sup> This is not to say that all should be given equal weight, and he did comment, inter alia, on the importance of Release 8 and of carrier aggregation in later releases.

# UK court sets FRAND rate for 4G SEPs (cont/...)

For 4G multi-mode handsets, based on the evidence before the Court (much of which is not public), UP's share of the total pool of SEPs was 0.70%. This meant that the relative value ("R") vis-à-vis the Ericsson portfolio was 7.69% and (after more redacted evidence) the value "E" of the Ericsson license was 0.8%. This led to a rate for the UP license of  $E \times R = 0.062\%$  for 4G multimode handsets (and 0.072% for infrastructure).

This rate determined by the Court was about half that sought by UP and about 50% more than Huawei had offered. It pointed towards a total royalty burden of just 5.6% for 3G multimode handsets.<sup>4</sup> The total for 4G multimode handsets would be 8.8%. Other data for other types of equipment is set out in a table in paragraph 478 of the judgement:

Handsets	No. of UP SEPs <sup>5</sup>	FRAND rate for UP portfolio	Implied total burden
2G	2	0.064%	4.9%
2G/3G multimode	1	0.032%	5.6%
2G/3G/4G multimode	6	0.062%	8.8%
Infrastructure	No. of UP SEPs	FRAND rate for UP portfolio	Implied total burden
2G	1	0.064%	8.5%
3G	2	0.016%	3.1%
4G	7	0.072%	7.0%

## Competition law

Huawei contended that UP were in a dominant position and abused that position by precipitously bringing the infringement action without giving Huawei adequate time to negotiate a licence.

The Court held that UP, as a holder of a SEPs, had a 100% market share in the market for licenses under those SEPs and was therefore in a dominant position, but that it did not abuse that position notwithstanding evidence that it had been UP that had dragged their heels in license negotiations and not Huawei. (UP first approached Huawei in June 2013; in November 2015 UP agreed to give Huawei claim charts under NDA; in January 2016 Huawei proposed different NDA terms but they received no further reply until the lawsuit was filed two months later.) However a particular feature of the case was that Huawei had previously been licensed under the Ericsson patents (a license which expired in 2012). So Huawei were already aware they needed a license and the evidence pointed more to holding out by Huawei rather than holding up by UP.

The Court also held that a holder of SEPs under a FRAND obligation cannot insist on bundling of non-essential patents in a license for essential patents, but this does not mean it is contrary to competition law to make a first offer that bundles SEPs and non-SEPs together. Bundling per se does not take a license outside the scope of FRAND. *"Everything will depend on the circumstances"*.

## Back damages

UP sought a higher level of damage for past infringement than for royalties going forward.<sup>6</sup> But under UK law the loss to the patentee is exactly that which he would have received under FRAND terms and it is irrelevant that such a finding gives defendants no incentive to settle.

<sup>4</sup> Which Birss J. said was "not far out of line" with a rate determined by the IP High Court in Japan in Samsung v Apple, May 2014.

<sup>5</sup> Using UP's figures. Note that the total numbers of SEPs in the later standards were higher, leading to higher denominators, thereby diluting the value of each.

<sup>6</sup> It is not uncommon for a license agreement to set a higher royalty rate for past damages than for forward royalties. This encourages quicker settlement.

## Comment

Court decisions on setting of royalty rates for licenses are few and far between, and this is the first decision from a UK court that attempts to determine what is Fair, Reasonable and Non-Discriminatory in a standards setting arena.

FRAND is not just a matter of setting a rate. There are many aspects of what is or is not FRAND, and this judgement will be scrutinized in every aspect, given the huge sums involved.

Mr. Justice Birss wrote a general comment on FRAND:

*As a society we want the best, most up to date technology to be incorporated into the latest standards and that will involve incorporating patented inventions. While the inventor must be entitled to a fair return for the use of their invention, in order for the standard to permit interoperability the inventor must not be able to prevent others from using the patented invention incorporated in the standard as long as implementers take an appropriate licence and pay a fair royalty. In this way a balance is struck, in the public interest, between the inventor and the implementers. The appropriate licence is one which is fair, reasonable and non-discriminatory. That way a standard can safely incorporate the invention claimed in a patent without giving the inventor or his successors in title unwarranted power over those who implement the standard. Thus the public interest is served because telecommunication standards can be set using the best and most up-to-date technical expedients available and the inventor's private interest is served because the FRAND undertaking ensures they or their successors will obtain a fair reward for their invention.*

His comments on “hold up” and “hold out” are also noteworthy. FRAND is a “two-way street: a fair return for inventors and avoidance of holdup”. Patentees are particularly vulnerable to ‘hold out’ because “they cannot withhold the knowledge of their inventions, which they have already made public.”

In the Unwired Planet case, his task was aided by there being a number of existing licenses with which to compare, and he sought the “closest possible parallel” (applying *Smith Kline & French Laboratories Ltds (Cimetidine) Patents* [1990] RPC 203). He did not use a total aggregate royalty approach, but he was able to check his result by looking at its implication for all patents declared as essential to the standards in question, using the patent counting short-cuts that the parties themselves used. Of course Huawei argued that the total aggregate royalty burden was too high and UP argued it was not quite so high. Birss J. ended up with a total figure lower still and only marginally above the 8% level that he considered “too low”.

These figures were arrived at because there were existing licenses previously executed by Ericsson with which to compare. The Court recognised that other licensors attract higher rates for their portfolios and also that the adjudicated rates are “benchmark” rates that can be adjusted up or down according to circumstances.

# “Arrow” declarations

## Defence against submarine divisionals and opting European patent applications out of the UPC<sup>1</sup>

By Hugh Dunlop

An “Arrow” declaration is a remedy that can be applied for seeking a court declaration that a certain product was known or obvious at a particular date – i.e. that a party is free to make and sell its product notwithstanding a certain pending patent application because any claims that might validly be granted would not be infringed. It is a pre-emptive *Gillette* defence, because it seeks to establish that the product is old so it does not matter whether the claims would be invalid or not infringed – either way, the path to market is cleared.

Such a declaration takes its name after *Arrow Generics v Merck*.<sup>2</sup> More recently, the jurisdiction of the Patents Court to make such a declaration was challenged and reviewed by the Court of Appeal in *Fujifilm Kyowa Kirin Biologics (“FKB”) v AbbVie Biotechnology*.<sup>3</sup> The Court of appeal upheld the jurisdiction of the Patents Court to make such declarations.

Briefly, the principal grounds under which AbbVie argued that the Patents Court had no jurisdiction to make such an order arose from Patents Act 1977 section 74(2) which says that the validity of a patent may not be put in issue other than in an action for revocation or by way of defence to an action for infringement (or in certain other specific instances) and “no proceedings may be instituted seeking only a declaration as to the validity or invalidity of a patent”. AbbVie argued that the action was in essence an attack on the validity of a putative patent and so was precluded by s74 (because it would have to be brought after grant under s70). The Court of Appeal held that (a) the case relates to an application, not a patent and (b) it is not only invalidity that is in question, but equally non-infringement. So on both counts, s74 does not apply and moreover there

are sound policy reasons for awarding such declarations in appropriate cases:

*Because an applicant may wait until an earlier application has been in prosecution for many years before filing even a first divisional, it should be clear . . . that the final form of any protection based on the subject matter of the parent application may take a very long time indeed to emerge. The protection conferred by the earliest application may have ended, but many divisionals and sub-divisionals . . . may still be in the pipeline [including some] which have not been published, and more to come which have not even been filed.*

The Court referred to this as the problem of the “**submarine divisional**” and said the uncertainty that arises may have a chilling effect on competition.

AbbVie also tried to run an argument to the effect that such declarations would undermine the system of allocation of jurisdiction under Art. 24(4) of the recast Brussels Regulation. This was a less forceful argument, but we review it here for reasons set out below. That section of the Regulation says “*the courts of each Member State shall have exclusive jurisdiction in proceedings*

*concerned with the registration or validity of any European patent granted for that Member State*”. AbbVie were in effect trying to argue that this would be a back door way of invalidating a European patent. The Court of Appeal merely said that insofar as the declaration can be said to be “concerned with the registration or validity of patents”, it can only be concerned with the registration or validity of EP (UK)s. Moreover, when the declaration states that the product is obvious, it will do so as a matter of UK patent law. The validity of other patents for other designated states is a matter for the law of those states.



<sup>1</sup> This article was published in CIPA Journal, April 2017

<sup>2</sup> [2007] FSR 39

<sup>3</sup> [2017] EWCA Civ 1



Hugh Dunlop

## Arrow Declarations under the UPC – reason to opt out pending applications?

It would seem that the UPC will be open to considering *Arrow* declarations, because Art. 32(1)(g) of the UPC Agreement confers exclusive competence on the Court in respect of, inter alia, “actions relating to the use of the invention prior to the granting of the patent or to the right based on prior use of the invention”.

Note that “actions relating to the use of the invention prior to the granting of the patent” does not simply mean damages arising from the provisional protection conferred by publication – those are separately covered by Art. 32(1)(f). Further indications of the competence of the Court can be found in Recital 2 which refers to “defence against unfounded claims and claims relating to patents which should be revoked”. Recital 5 has similar words. Recital 13 may also be invoked, as it calls for “the right to an effective remedy before a tribunal”. Only actions not falling under Art. 32(1) lie with the national courts – see Art. 32(2).

Of course, a party can opt out of the exclusive competence of the Court during the transitional period (Art. 83(3) UPC).<sup>4</sup> But the transitional provisions of Art. 83(1) apply only to actions for infringement or revocation of a patent (or SPC) and do not say anything explicit about parallel national jurisdiction during the 7-year transitional period over actions relating to the use of the invention prior to the granting of the patent. Can we read more into this? Does it mean that actions under Art. 32(1) other than those listed in Art. 83(1) are exclusive to the UPC from the outset? Does it mean that *Arrow* declarations under European patents that are **not opted out** are the **exclusive domain of the UPC**? Very possibly. It might be wise to register an opt-out for

a European patent application before an *Arrow* action is commenced in the national court, otherwise there may be some force in a defence to strike out for lack of jurisdiction – contrast the broad scope of Art. 32(1)(g) (“actions relating to the use of **the invention** prior to the granting of the [European] patent”) with the narrow scope of section 24 of the Brussels Regulation (see above “proceedings concerned with . . . any European patent granted **for that Member State**”).

In contrast to Art. 83(1), if a European patent application is opted out under Art. 83(3), such opt-out is from the [exclusive] jurisdiction of the Court for all purposes.

A claim for an *Arrow* declaration would seem to fall under Rule 60 of the Rules of Procedure. Notwithstanding that the rule is headed “Declaration of non-infringement”, it is not limited to claims under Art. 32(1)(b) and extends to any claim for “a declaration that the performance of a specific act does not, or a proposed act would not, constitute an infringement of a patent”.<sup>5</sup>

The potential claimant must first apply to the proprietor (or licensee) for a written acknowledgment that the act would not constitute an infringement, giving full particulars. The proprietor (or licensee) has one month to respond. Whether this month gives enough time for the proprietor to lodge an opt-out and have that registered depends on the speed of the Registry. (An opt out only becomes effective upon entry in the Register.)

Accordingly, proprietors of European patents who are considering opting their patents out of the UPC may also wish to consider pending applications, especially those which have been divided or are yet to be divided.

<sup>4</sup> There is debate as to the term “exclusive” in Art. 83(3) and about the non-sequitur over opting out of an exclusive jurisdiction that, for the transitional period, is not exclusive. It is beyond the scope of this article to speculate whether the fact that Art. 83(1) leaves out certain actions (and leaves them exclusively with the Court) leads to the conclusion that Art. 83(3) is referring only to those actions – that would seem absurd – or leaves them non-exclusively with the UPC and the national courts – that would be very surprising. It may perhaps only be put to the test when someone applies for an *Arrow* injunction under an opted-out patent application.

<sup>5</sup> It may be interpreted that “patent” strictly means “granted patent” and not “putative patent”, but the rule seems apt and there is no other rule.

# UK court rules on patentability of aesthetic creations

By James Cross and Oliver Poskett

In *Epoch Co Ltd v Character Options Ltd*, [2017] EWHC 556 (IPEC), the UK Intellectual Property Enterprise Court (IPEC) recently decided on the patentability of aesthetic creations in a case involving toy plastic beads that stuck together when sprayed with water and left to dry. The patented version had polyhedral beads, while the prior art beads were spherical. The effect of making the beads polyhedral was enhanced 'brilliance', involving reflected and refracted light. The Defendant argued that this difference was purely aesthetic and therefore not patentable.

UK case law on excluded subject matter follows the general principles set out in *Aerotel Ltd v Telco Holdings Ltd and Macrossan's Patent Application* [2006] EWCA Civ 1371 and subsequently developed in *Symbian Ltd v Comptroller-General of Patents* [2008] EWCA Civ 1066 and *HTC Europe Co Ltd v Apple Inc* [2013] EWCA Civ 451, but there is little case law specific to aesthetic creations. Epoch relied on EPO decision T686/90 HETTLINGDENKER/Translucent building materials [2004] E.P.O.R. 5, in which a translucent building block that could be used to create a stained glass effect was held to be technical. Character Options relied on a UK Patent Office decision *Gram Engineering Pty Ltd* BL O/275/08, 9 October 2008 in which a cladding panel with panel formations was held to be purely an aesthetic creation.

In this case, it was held that the polyhedral beads were like the building blocks of Hettling-Denker, in that they could be used to make a design that would be an aesthetic creation, but were not themselves aesthetic creations. The Judge made a distinction between inventions that involved an aesthetic effect and are patentable, and inventions that are no more than an aesthetic creation, and are not patentable.

Epoch, the Claimant, was represented by Maucher Jenkins.



James Cross



Oliver Poskett

## News from Germany on progress towards the Unitary Patent

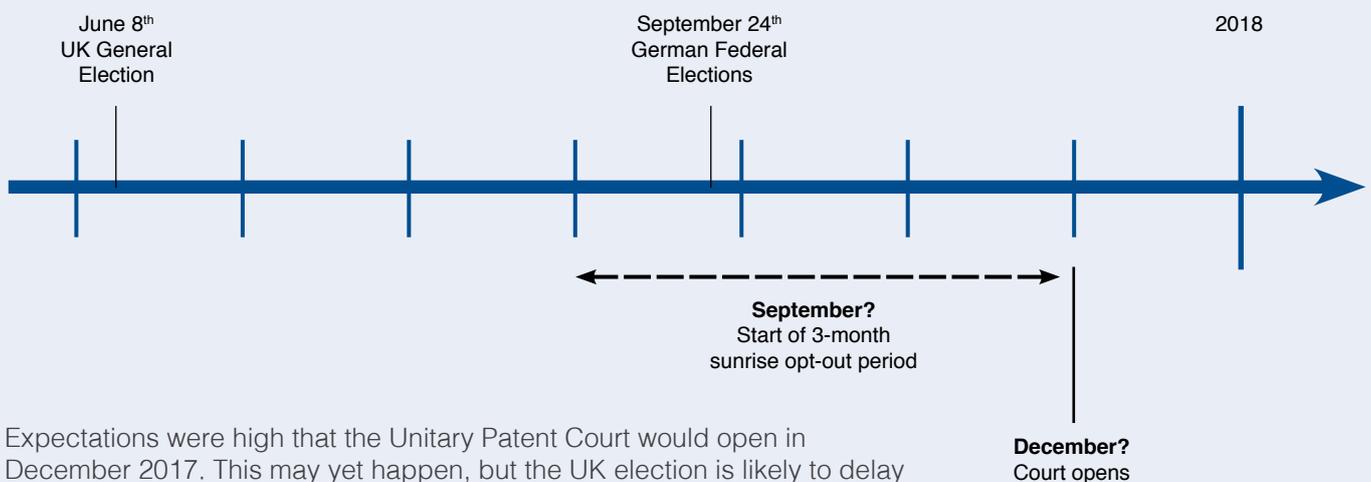
The German government passed bills on 10 March 2017 to enact legislation implementing participation in the Unitary patent and corresponding modification of German national patent law. One notable provision is the possibility of **parallel German national and European patents**. This affords to applicants the possibilities offered by the new Unitary Patent and at the same time the tried and tested structures of the German court system for patent disputes.

The new law **only** contemplates parallel German

national patents and European patents (with or without unitary effect). It does not allow applicants to validate a European patent in Germany and, in parallel, obtain Unitary protection across Europe for the same patent.

The corresponding UK legislation has **not relaxed the existing double-protection ban** in the UK, and is also clear that Applicants cannot validate in the UK in addition to electing for unitary effect (see footnote to the article by Handong Ran overleaf).

## Start of Unitary Patent Court likely to be delayed following UK election call



Expectations were high that the Unitary Patent Court would open in December 2017. This may yet happen, but the UK election is likely to delay ratification by the UK, which may have a knock on effect on the timetable.

There is a critical period between elections in UK and Germany when both states must ratify if the project is to get off the ground in its present form.

# Impacts of Brexit

## Observations from China

By Handong Ran

On 29 March 2017, UK Prime Minister Theresa May formally triggered the process for the UK to leave the European Union (EU). This began a two-year process of negotiations which will lead to Britain leaving the EU.

On a general economic level, Europe has been the most important trading partner for China in the past decade. Despite the large volume of trading between Europe and China, many Chinese enterprises, especially SMEs, have had difficulties doing business in Europe or with European business partners, partly because of language and cultural differences and the rather complex legal systems in Europe. Having generally pro-free trade policies and English as the official language, the UK was naturally chosen by many Chinese enterprises as a bridge to reach the European market and to partly avoid the language and cultural barriers. This has worked well, and confidence among Chinese enterprises in this type of business model has built up over the years.

However, for some, this confidence was shaken by results of the European Union (EU) membership referendum last year and subsequent triggering of Article 50 of the TFEU. There is fear that the China-UK-Europe type of business models will not continue to work when the UK leaves the EU and if free movement cannot be maintained as result of the withdrawal negotiation (by way of the UK joining the EEA or otherwise). Chinese IP owners and users are keen to find out how their positions in Europe are going to be affected by Brexit.





Handong Ran

## Patent protection

Many Chinese high-tech companies have started to realize the importance of patent protection to the growth of their businesses in the European market. This has been reflected by the increasing number of patent filings by Chinese applicants at the European Patent Office in the last 10 years (average year-on-year increase by more than 22%). In the last few years, the exciting developments of the Unitary Patent (UP) system attracted a lot of attention from Chinese IP owners and users. There was high expectation for the UP system to become operational in 2014. Although the target launch date was pushed back several times, the attitude remained generally optimistic until serious doubt was cast on the future of the system by the referendum vote. Personal discussions indicate that, for those following the issues, confidence picked up again when confirmation was given by Baroness Lucy Neville-Rolfe (the UK's IP minister at that time) on 28 November 2016 that the UK was set to ratify the Unified Patent Court (UPC) Agreement.

It is now generally understood among Chinese IP owners and users, after great efforts have been made by officials from the UKIPO, professional bodies like CIPA, and individual attorneys from various UK firms to spread the "business as usual" message that the European Patent Convention (EPC 1973) is not a piece of EU legislation and will be unaffected when the UK leaves the EU. IP owners can continue to obtain UK patent protection by validating their European patents in the UK after the UK leaves the EU.

Until Theresa May's snap election call, it looked promising that the UP system would be operational from December 2017. The project may suffer further delay, but hopes are still high for a 2017 or early 2018 start date. Chinese IP owners and users need advice and/or up-to-date information on developments regarding the UK's position in the system so as to design or adapt their patenting strategies for the

change, and in particular for European patents to be granted within the period between the launch date and 28 March 2019 (the end of the 2-year withdrawal negotiation).

Assuming the UK will take part in the Unitary Patent system from the launch date but will not remain in the system after leaving the EU,<sup>1</sup> it will not be a straightforward decision for some IP owners as to what validation plan should be taken for their European patents granted within this period of time.

If an applicant wants to cover the UK by a European patent granted within this period of time, the Applicant could either validate the European patent in the UK or elect unitary effect to cover the UK. As matters stand, Applicants cannot validate in the UK in addition to electing for unitary effect.<sup>2</sup> If the Applicant goes for the former option (UK validation), his/her right in the UK will not be affected when the 2-year period runs out (when the UK leaves the EU and the UP system). With this option, of course, the patent will not enjoy the unitary effect. If the latter (unitary) option is taken, when the UK leaves the EU, the unitary effect may no longer apply to the UK, but, if that is the case, it is fully expected that transitional arrangements will be put in place to continue the Applicant's right in the UK (by automatic conversion of the UK coverage of the unitary patents to UK national rights).

It is expected that nothing further will be required when that time comes, but that IP owners will have to be aware of the need to separately renew the UK rights.

For patent applications recently filed or yet to be filed at the EPO, this is less likely to be a problem because they will probably not proceed to grant until after 28 March 2019.

For inventions where UK protection is important and pan-EU protection is not crucial, Brexit is yet another reason for Applicants to consider national routes rather than the EPO route.

<sup>1</sup> Whether or not the UK remains in the Unified Patent Court jurisdiction. Continuing in the unitary patent system would require a separate agreement between the UK and the EU.

<sup>2</sup> Patents (European Patent with Unitary Effect and Unified Patent Court) Order 2016 Section 2, amending Patents Act Section 77(1): "Subsection (1) does not apply and is to be treated as never having applied in respect of a European patent (UK) whose unitary effect is registered by the European Patent Office in the Register for unitary patent protection".

# Impacts of Brexit

## Observations from China (cont/...)

### Representation

UK based European patent attorneys will still be able to prosecute patent applications at the EPO after the UK leaves the EU. This message seems to be understood around the world.

As matters stand, UK-based European patent attorneys will be able to represent clients in post-grant proceedings relating to unitary patents, e.g., central revocation and infringement proceedings. Moreover, once registered on the List of representatives before the UPC, a UK based EPA will remain on that List so long as the attorney continues to be registered at the EPO.

Of course, every coin has two sides. For businesses where UK patent protection is crucial, many Chinese applicants already choose to go along the UK national route alone or in addition to the EPO route. Such Chinese clients continue to prefer to engage UK patent attorneys at the time of filing

### Trade Marks and Designs

Much has been said regarding the importance of reviewing all licences/settlements/delimitation/co-existence agreements relating to portfolios of existing EU trade mark and design registrations and taking necessary actions now to mitigate undesirable effects caused by change in geographical coverage of those registrations when the UK leaves the EU. These are issues that are sensitive to European and US holders of IP rights in Europe, but are not high in the consciousness of many Chinese IP owners.



<sup>1</sup> Patents (European Patent with Unitary Effect and Unified Patent Court) Order 2016 Section 2, amending Patents Act Section 77(1): "Subsection (1) does not apply and is to be treated as never having applied in respect of a European patent (UK) whose unitary effect is registered by the European Patent Office in the Register for unitary patent protection".

## Other topics of interest

Some Chinese businesses, especially manufacturers exporting to Europe, are curious about whether there will be increased risks for them to be sued for patent infringement when the UPC is operational, and whether the new patent litigation system will be abused by NPEs. While understandably it is difficult to predict real effects of the UPC before the system has been tested for some time, observations on these points will be interesting for Chinese businesses.

The start of the sunrise period for opt outs may begin in 2017. When it does, it will allow approximately three months for business to make any adjustments to EP grant strategies. It appears that many Chinese IP owners have yet to consider their preferences to engage the new court or to stick with the national systems. It is likely that mere inertia will take many Chinese-owned European patent applications into the jurisdiction of the new court.

## Out and about – external event attendance

Who	Details	When
Handong Ran Edward Rainsford	China International Medical Equipment Fair (CMEF) National Convention and Exhibition Centre, Shanghai	15 – 18 May
Hugh Dunlop	AIPLA 2017 Spring Meeting, San Diego, and Presentation to San Francisco Intellectual Property Law Association, and Meetings in other US locations	15 – 19 May
Tim Pendered Katie Cameron Angela Fox Kana Enomoto	INTA 39th Annual Meeting Barcelona Client Hospitality Suite in Hotel Porta Fira	20 – 24 May
Fiona Kellas	17th BioDundee International Conference 2017	23 – 24 May
Reuben Jacob Fiona Kellas Edward Rainsford Tanya Buckley	BIO International Convention 2017, Convention Centre, San Diego	19 – 22 June
Phil Treeby	AIPPI World Congress 2017, Sydney	13 – 17 October
James Cross	AIPLA Annual Meeting, Washington DC	19 – 21 October
Reuben Jacob Phil Treeby	APAA, New Zealand	4 – 7 November
Katie Cameron Tim Pendered	INTA Leadership Meeting, Washington DC	7 – 10 November

## Maucher Jenkins hosted events

Maucher Jenkins Partners	Evening Drinks and Canapés Reception at INTA Rooftop Terrace of the Hotel Pulitzer, Barcelona	21 May
Felix Rummier	IP Happy Hour – valuable IP information for early stage/start up companies, Munich	July – and bimonthly thereafter

## Team news

Welcome to: **Wendy Xiong** has just joined us in China and will assist in ensuring the smooth operation of the Beijing office. **Mark Webster** who has recently joined our London office as an Associate in our trade marks group in London. Prior to joining the firm, Mark qualified as a solicitor at a top commercial law firm, where he gained extensive knowledge of IP law and assisted on a variety of trade mark cases. **John Parkin** joined the firm in January as a Technical Assistant based

in the patent team in Farnham. John has a PhD in Chemistry/Physics. **Lukas Stolch** started as Technical Assistant in March in our Munich office. **Suzu Sato** joined the firm's patent team in Farnham as a Technical Assistant. Suzu has a BSc in Physics. **Lucy Holt** joined the firm's life sciences and medical technologies patent team in the Farnham office. She is a Technical Assistant and has a degree in Chemistry, MChem. Prior to joining the firm, Lucy undertook an internship with Warwick Ventures Ltd. **Asami Tajima** is

a qualified Japanese Patent Attorney and her background is in Chemistry. Prior to joining the firm, Asami was with Inoue Patent Office in Japan, where she worked as a Patent Attorney.

Congratulations to: **Nick Wright** and **Tim Young** who have both now qualified as European Patent Attorneys. Also to **Dr Gerrit Schultz** who is now fully qualified Attorney at Law in Germany.

The information in this newsletter is for general information only and does not constitute legal advice. Advice should be sought from an attorney for specific matters.

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