The London Agreement and the future of parallel imports

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Are European patents really getting cheaper, and if so, what effect will this have on parallel or so-called gray imports?

On the face of it, the London Agreement, which came into force on May 1, 2008, is a good thing for European patent holders. It relaxes the translation requirements in some European countries, thus reducing the overall translation costs. Or does it?

The UK Intellectual Property Office seems to think so. As it confidently states on its website, "The London Agreement is expected to significantly reduce the costs of patenting through the European Patent Office (EPO) by almost halving the current translation costs associated with European patents. UK businesses will save an estimated £10 ($20) million every year by not having to file unnecessary patent translations, which currently account for 25% of the costs of an average European patent"[1].

However, because the countries that have waived all translation requirements are English-, French- or German-speaking countries, the London Agreement may fail to deliver much of the long-hoped-for translation cost savings.

Although a European patent can be filed in any language, if a language other than English, French or German is used, the applicant must file a full translation within two months of the filing date into one of these languages. The language of the translation then becomes the "language of the proceedings." Thus, at the very outset, a European application must be translated into English, French or German. Once the application has been examined, a translation of the claims into each of the other two languages must be filed for all European applications at the European Patent Office (even if there is no interest in pursuing protection in countries where either of those languages is spoken). At grant, the whole application—that is, the claims, description and abstract—must be translated into one of the languages prescribed by each of the desired countries where protection is sought.

Table 1 The procedure to validate a European application which was filed in English, according to the London Agreement

Countries in which validation is sought	Translations to prepare and file
Austria	A full German translation
Belgium	As Belgium accepts French, Dutch or German translations, it will be possible to use the full German translation prepared for use in Austria
Denmark	A Danish translation of the claims
Finland	A full Finish translation
France	None (however, you have already been required to provide a French translation of the claims to the EPO)
Germany	None (however, you have already been required to provide a German translation of the claims to the EPO and prepare a full German translation for use in Austria)
Greece	A full Greek translation
Hungary	A full Hungarian translation
Ireland	Still requires full English translations; however, as the case was filed in English, an English translation is readily available
Italy	A full Italian translation
The Netherlands	A Dutch translation of the claims
Poland	A full Polish translation
Portugal	A full Portuguese translation
Spain	A full Spanish translation
Turkey	A full Turkish translation
United Kingdom	None (however, the application is already in English)

Thus, the relaxation in translation requirements afforded by the London agreement has, in this example, only saved the costs of translating the description (and abstract) into French, Danish and Dutch.

Consequences of the agreement

As a result of the London Agreement, France, Germany, Lichtenstein, Luxembourg, Monaco, Switzerland and the UK no longer require any translations to be provided to validate in those countries. However, this relaxation does not affect the need to provide translations of the claims into the other two official languages to the EPO.

In Croatia, Denmark, Iceland, Latvia, Slovenia, Sweden and The Netherlands, a translation of the claims alone into Croatian, Danish, Icelandic, Latvian, Slovak, Swedish and Dutch will now suffice to meet the validation requirements of a European application in those countries, so long as an English language version of the description is also available.

Table 1 shows the translations needed if you wish to validate a European application filed in English in the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, The Netherlands, Poland, Portugal, Spain, Turkey

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and the United Kingdom. It is hard to see how the predicted cost savings will accrue, especially if either Austria or Belgium continue to be validated at their current levels—as Austria still requires that a full German translation is filed, and Belgium requires that either a full French, German or Dutch translation is provided.

Even if the London Agreement fails to deliver the promised cost savings, it will inevitably alter the validation habits of patentees, especially as the selection of countries in which to validate a European patent can be deferred until grant if seven designation fees are paid at the outset.

It seems likely that there will be an increase in the number of patents being validated in Croatia, Denmark, Iceland, Latvia, Slovenia, Sweden and The Netherlands, where the translation requirements have been relaxed. This will come at the possible expense of countries such as Bulgaria, Cyprus, Czech Republic, Estonia, Spain, Finland, Greece, Hungary, Italy, Lithuania, Malta, Norway, Poland, Portugal, Romania, Slovakia and Turkey, which still require full translation into languages other than French, English or German.

It is perhaps surprising that any European country would wish to stay outside the London Agreement, as the risk that patentees would simply fail to validate in those countries that continue to require full translations is real. This is especially true as, in some of these countries, the principal source of income for their national patent offices is associated with the preparation and filing of translations. Many countries, notably those in the southern reaches of Europe, have chosen this route and in so doing may have provided a trap for the unwary and/or cash-strapped patentee.

Figure 1 The relationship of European Patent Convention states to members of the European Economic Area.

Where to validate?

When deciding in which countries to validate a European patent, the patentee must take account of many often competing factors. The relative costs of translations in different countries should, as far as possible, be ignored, as the omission of a seemingly unimportant country to save on translation costs could undermine the value of a whole European patent family.

The 'free movement of goods' provisions of the European Economic Area (EEA) are of key importance when deciding where to validate a European patent because all members of the EEA are now members of the European Patent Convention (EPC) but not all members of the EPC are members of the EEA (see **Fig. 1**).

At its very inception, the EEA was intended to enable the free movement of goods and services across the national borders of the member countries. The aim, though not always the effect of the provisions, was to make it difficult for patentees to charge different prices for the same product in different member states and thus divide the single market.

Article 30 of the Treaty of Rome, which established the European Community in 1957, states, "Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States." European case law has, unsurprisingly, established that patent rights fall within this prohibition as patent rights allow the patentee to limit the manufacture, sale and movement of patented goods across national borders.

The fundamental contradiction between the notion of a borderless EEA and national patent rights was addressed or at least alleviated by the adoption of something akin to the US doctrine of the exhaustion of rights. In the EEA, a patentee is allowed to restrict the sale and movement of patented goods. However, once he has legally placed the goods on the market in the EEA (that is, allowed a consensual sale to occur), he has no further right to limit the movement of those goods within the EEA.

Accordingly, anyone may legally buy those goods in the country where the patentee has chosen to sell them, move them to another EAA country (without any concern for the patent rights which may exist in that or any intermediate EEA country) and resell the goods, a practice known as gray or parallel importing.

This gives rise to a variety of scenarios: if a patentee chooses to place his goods on sale in, for example, Iceland (a country in which, because of the recently reduced translation costs, he has decided to obtain patent protection), this constitutes a consensual sale in the

EEA, which has exhausted the patentee's rights. It is therefore perfectly legal for a third party to purchase those goods in Iceland and resell them in another EEA country, for example, the UK, even if there are valid patent rights in the UK. It will not be possible, however, for a third party to sell, make or import his own infringing goods in Iceland as a result of the European Icelandic patent, or to move those goods to the UK with impunity.

Conversely, if a European patent is not validated in one of the member states where the translation costs remain high, for example, Portugal, the third party could legally manufacture, sell or import his own seemingly 'infringing' goods in Portugal and because there are no rights in Portugal, he would not infringe. However, if he then sought to move those goods from Portugal to any other EEA country, for example, the UK or Iceland, where there are patent rights, the patentee could use his patent to stop the third party's activities as there has been no consensual sale of the goods by the patentee.

For the sake of completeness, let us consider the final, albeit unlikely, scenario in which the Icelandic patent rights holder were to place his own goods on the market in Portugal, even though he had not obtained patent protection in Portugal. Although arguably the patentee has not exhausted his rights, given that he has no rights in Portugal, European Commission case law has established that because there has been a consensual sale in Portugal, the patentee cannot use his Icelandic patent to prevent importation into Iceland.

Thus, parallel importers are in a very strong position because as soon as the goods are placed on the market in an EEA country by the patentee (whether or not a patentee holds rights in the country where the sale occurs), he has performed a consensual sale and thereafter the goods can be moved and sold freely throughout the EEA, regardless of any other patent rights which may exist.

EPC countries that are not members of the EEA (that is, Bulgaria, Croatia, Monaco Romania, Switzerland and Turkey) are not subject to these 'free movement of goods' provisions. Hence, if a patentee consensually sells his goods in Switzerland, this has not exhausted his rights and a parallel importer cannot buy those goods and import them into the EEA with impunity.

Although patents do not provide much protection against parallel imports within the EEA, uniform pricing will act as a very powerful disincentive to parallel importers, making it difficult for any 'would-be' parallel importer to obtain the product from the patentee legitimately and transport it to another country, and then place it on the market in that country at a price that undercuts the patentee's own price.

Thus, when deciding where a European patent should be validated, it is essential to carefully consider not only which EPC countries are also members of the EEA but also where the likely threats from third parties lie. Are they primarily from parallel imports or from the manufacture, or sale of infringing goods either within the EEA or beyond?

If the major threat is considered to be from parallel importers (as perhaps is the case for products that are costly or difficult to manufacture, or are subject to complicated regulatory provisions such as pharmaceuticals), it may not be worthwhile securing protection in all EEA states, as once the patentee has placed the goods on the market in one EEA state, his rights have been exhausted. Accordingly, it may be worth validating protection only in the country or countries where the patentee intends or wishes to market the goods himself.

It is also worth considering whether it is necessary to completely eliminate parallel imports. If they enable the patentee to make a sale he would not otherwise have made (especially if the patentee does not have the ability or desire to establish a pan-European distribution network), maybe parallel imports are to be welcomed.

The best (and perhaps only) way to ensure exclusivity in markets the patentee wishes to supply himself is through the adoption of uniform pricing, as any attempt to supply different member states within the EEA with the same goods at different prices risks opening the door to parallel importers.

Alternatively, if the threat is deemed to be from third parties who are likely to manufacture their own infringing products either within or outside the EEA with the intention of distributing and selling those goods in the EEA, European patents must be validated in all EEA countries where a sale of the infringing product may occur. Even though this would still enable manufacture to be conducted legally in any country within the EEA where there is no patent protection, any attempt to import the goods into an EEA country (where patent rights exist) for sale could then be prevented using the national patent rights in the country where the infringing sale is planned.

If the patentee wishes to prevent not only the sale but also the manufacture of goods within the EEA, it will be necessary to validate European patents in all EEA countries where a potential infringer may wish to manufacture.

It is not necessary to validate a European patent in countries that are not members of the EEA (unless it is desired to protect those national markets from infringement) as although manufacture in these countries will not infringe (unless national protection has been sought), neither will it then be possible to import these goods into the EEA with impunity. Similarly, as none of the EPC extension states (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia) are currently members of the EEA, it is not yet necessary to validate a European patent in these countries to protect the patentee's position in the EEA.

Conclusions

The London Agreement will certainly reduce some translation costs. However, translations will remain a significant cost element in the patents process. As few patentees have the funds to be able to choose to validate all cases in all European countries, the selection of countries to be validated in Europe must be very carefully considered taking account of both the patentee's plans and those of likely infringers.

1. http://www.ipo.gov.uk/londonagreement.htm