

Confusion over software patents

Despite adoption of the proposed Directive on computer-implemented inventions, attempts by the EU institutions to agree on it show no sign of resolution. For European businesses there is much at stake, argues **Julian Potter**

The European Council of Ministers recently formally adopted a proposed Directive on the patentability of computer-implemented inventions (CII Directive) that effectively codifies European Patent Office (EPO) case law with respect to CIIs. With a number of member states expressing reservations over the proposed Directive, the text now goes to a second reading before the European Parliament who must approve, reject or amend it within a strict three-month time limit. Approval in the European Parliament requires a significant majority at second reading and is by no means certain that a majority is in favour. However the EC has indicated that if Parliament rejects the Directive, it will not be proposing a new one.

Although the text agreed by the Council of Ministers substantially does nothing more than codify the case law of the EPO, it does include some additional restrictions on protection. However, amendments proposed by the European Parliament at first reading largely alter the intent and objective of the original text and turn existing case law on its head. Many of the changes would restrict patent enforcement for CIIs and thus have retrospective effect on existing patents. Despite the proposed amendments the Council has formally adopted its May 2004 version which includes only minor amendments taken from Parliament's proposals. Clearly, there is substantial disagreement between the

Council of Ministers and the European Parliament as to what the CII Directive should allow to be patentable, even to the extent of the European Parliament calling on the Commission to re-start the legislative co-decision process from the beginning with a new draft of the Directive.

The uncertainty surrounding CIIs has very real and adverse consequences for the European software, information and communications technology industry, both in terms of competitiveness and inward investment, particularly if the amendments proposed by Parliament are enacted. Practice relating to the validity and enforcement of such patents is varied between national courts and the harmonisation afforded by the CII Directive would substantially reduce these differences.

A primary concern involves the value of existing patents for computer-implemented inventions. Has investment in European patents been wasted? Is there a need to obtain patents or take licences? To do so would incur expense which may be unnecessary if the European Parliament's view is adopted, yet not doing so may result in a weaker competitive position and liability for infringement if the Council's text prevails. Those wishing to licence patents amidst the uncertainty will find negotiations more difficult – delaying return on R&D investment and cutting off cash flow. For some businesses, the manner of exploitation of their inventions may have been different absent patent protection

and if such protection is removed, the holder's competitive position could be damaged. Large businesses with in-house advisors are already working to mitigate adverse outcomes, for example establishing protection and restrictions on use via contract and ensuring the least amount of information possible is made public. Smaller enterprises face the greatest challenge, as they generally have more limited in-house resources.

There is a much broader danger to both the technology industry and consumers in Europe. Without protection for CIIs, companies would seek patents outside of the EU, and launch products in Europe only when the technology was mature and the likelihood of copying low. Not only would European consumers suffer a technology drought, but businesses may locate R&D activities outside of Europe. The impact on inward investment for Europe would be immense.

Many European businesses believe that inventions requiring a computer for implementation are not patentable now and are unlikely to be in the future. This sometimes extends to the incorrect belief that such inventions cannot be patented anywhere. Whilst large corporations are likely to have the financial and legal resources to continue to file patent applications for CIIs, smaller businesses will be more hesitant to take risks.

Failure to protect R&D and lock-in IP assets will decrease

valuations, making businesses less attractive to investors. The opportunity for some patent licence revenue streams will be lost, and there is unlikely to be a consistent approach to patent portfolio creation and maintenance, to be used in a cross-licensing agreement in defending allegations of patent infringement. Furthermore, lack of patent protection will adversely affect IPOs or other exit strategies for small or mid-sized businesses. Even large corporations are likely to suffer adverse valuations due to the current uncertainty regarding the value of their IP assets.

Another impact of proposed amendments to the Council's text would be to inhibit development of technological standards involving CIIs. Increasingly a standard model utilising open interfaces is being adopted to ensure interoperability. These standards are generally based on patented technologies, for which licences are available on fair, reasonable and non-discriminatory terms. If patents were unavailable, companies would be reluctant to disclose their technology and instead of open standards, there would be greater reliance on proprietary standards and less interoperability.

If European businesses stop seeking patent protection for CIIs in the current uncertainty they will be placed at a competitive disadvantage relative to foreign companies, especially those from jurisdictions where CIIs are patentable, as overseas corporations will continue to



seek and often obtain patents on CIIs in Europe. Additionally, European businesses will be discouraged from seeking patent protection for CIIs in foreign countries, and therefore in order to enter those markets would have to obtain patent licences without any cross-licensing opportunity to mitigate licence fees. European companies will be at a competitive disadvantage at home and abroad and the impact of this should not be under-estimated: in some industries 70-90 per cent of inventions are computer-implemented.

Some amendments put forward by the European Parliament go beyond CIIs by proposing that when patented techniques are used for a significant purpose, this should not be considered an infringement ie the patent would not be enforceable. However since patents represent a substantial investment and therefore are obtained for significant inventions, this would render virtually all technology patents worthless.

Given the adverse effects on European businesses, it is imperative that a swift resolution is achieved and that the practice of the EPO is maintained. The CII Directive enables European business to compete on a level playing field. They owe it to themselves and to all related industries in Europe to seek out the most effective way of promoting their views and getting the support of their representatives at the European Parliament. ■

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