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## Associazione Italiana dei Consulenti ed Esperti in Proprietà Industriale di Enti o Imprese

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Bruxelles

Milano, 10. 01.2007

Re: EU Commission call for consultation on follow-up study on "The possible introduction of an insurance against costs for litigation in patent cases" by CJA Consultants, Ltd.

Comments on behalf of AICIFI.

Dear Sirs,

On behalf of this Association, whose membership is composed of industrial property experts working in-house in industry or research institutions in Italy, we would like to express our preliminary views and opinions on the feasibility study entitled Patent Litigation Insurance of June 2006 (herein below indicated as "Study").

We would like to note, first of all, that the Study contains a large amount of relevant data as well as an overall picture of the current situation and indicates the criticalities and options of any possible "insurance scheme": consequently our comments will focus on the main aspects outlined in the Report, since it is not considered feasible to enter in too many details at present. In fact, we found the "basic statistics" and the other quantitative information, more diffusely contained in the Appendices, useful in setting a firm ground of a deeper and well informed debate, that we are very interested in, but that it is probably more effectively conducted at a later stage, if necessary.

We concur with the assumption of considering only "European patents", at least initially, but we would like to note already at the outset that, to be effective, a system should allow for a certain degree of action of "pending European applications", if one considers the length of prosecution time, that sometimes dramatically contrasts with the urgency of launching an enforcement action to preserve any possible value to the patent rights being obtained.

We concur also with the conclusion outlined in the Study that "only the relevant public policy makers can decide whether the expected public benefits justify the necessary action to introduce a [compulsory] scheme" (p14, col.2, last paragraph) and we are of the opinion that **public policy makers should not embark in any such regulation work**, for reasons that are hopefully evident from the discussion that follows and that in any case we would appreciate a chance to further illustrate our arguments in more details, should the project of a "compulsory" system be further progressed in the future.



Now, we would like to comment first on what we consider one of the main conclusions of the Study, i.e. that the balancing exercise between the interests of the “patentee/client” and “insurers” would require a very “widespread scheme”, involving a large proportion of patentees and their patents to command “affordable” premiums and a simpler mechanisms, that in particular would not require costly and perhaps scarcely useful “initial technical risk assessment”.

We definitely share the outlined objectives of an easy and affordable system, but we are very concerned by what is indicated by the authors as “the necessary conclusion”, i.e. that only a “compulsory” scheme involving the great majority of patentees (and “all” of their European Patents) is considered as a suitable basis to attain the indicated objectives.

The study itself points to the more evident drawbacks of a compulsory scheme, starting from the fact that it is, both for reasons of principle and of practice, liked neither by the insurers nor by the patentee/clients, for reasons that can be analyzed in details but include for instance inflexibilities, distortion and need for ad hoc legislation and control, including “public” control (and the relative costs/bureaucracy) that a compulsory system necessarily requires.

Another essential feature of the proposed scheme is that, apparently to avoid the above mentioned “initial technical risk assessment”, a technical risk assessment as to the merit is to be conducted at the time of any claim by the insured. The insured is liable for its costs, unless it gets an opinion giving it “a 51% or better chance of success” (see Study, 14.6). Much more importantly, “a 51% or better chance of success” is necessary for the conducting the litigation with insurance cover.

This of the independent expert evaluation of “a 51% or better chance of success” is in our view a very critical practical aspect. Unless, the current evaluation standard are changed, it is in our experience not particularly frequent to have a formal “51%” evaluation of the chances of success, at the beginning of a possible infringement action. The reasons are manifold and not amenable to a quick review here, but generally the variables and uncertainties depending also on the unknown ammunitions available to the opposing party as well as the court evaluation of the ultimate evidence before them (that are subject to the individual appreciation of the “judges” and to a variable extent the “performance” of the parties before the court, for instance). Our experience is that in case of a genuine case of litigation, with reasonable chances of success, the highest score that you may expect from an “independent expert” is “50/50”.. If the case is genuinely “51%”, the other party would normally realize they have in reality a “49%” chance of success (i.e. significant likelihood to loose) and the case in practice is not likely to be litigated in court but settled outside of it.

When we come to practice, we believe therefore that the “51% or better” chance of success is a much too high threshold to cover any “reasonable” litigation case. In other words, the proposed system would only apply to a very limited number of cases that are likely to be settled anyway, without conducting an extensive court battle. In this sense, we can anticipate a very deep scepticism, to say the least, that the system (in particular having the complexities and costs of a “compulsory one, such as that of “Option 2” of the Study) will serve any useful purpose, and be in any case far from reaching the declared objectives. In this connection, one should always keep in mind the “relative” and “dynamic” nature of any such “opinion”, that is subject to individual appreciation and changes in time, even with the other variables remaining constant (that is actually never the case) depending for instance just on an apparent change in the specific court attitude toward “similar” situations.. If one considers this variability in the light of the “Review of prospects during the conduct of litigation” (see 14.27.1) at the sole discretion of the insurer and with its appointed experts and its consequences (for instance, the new situation due to e.g. the counterarguments and evidence of the “defendant”, require adjusting the evaluation to “below 51%”



and thus the insurance “walking away” in the middle of the battle, thus leaving the patentee with limited economical resources in a situation worse than the beginning...). Also, the objective “devastating” effects on other parallel litigations (or just a potential one, in particular in the USA) of the several and possibly varying “opinions” on the strength and weakness of “a patent” during this process should be evaluate and may alone militate against declining any such “insurance” scheme...

Additionally, one shouldn't underestimate the increased liability of any professional engaging in such a “technical risk assessment” both to the immediate client and additionally to the insurer (definitely in case the “51%” opinion is released but also when a lower one is released that is then proved to have been “too conservative” by the clients final court victory...). It is certainly hard to deny that any such increased liability would command a proportionate increase of the premiums in the related professional risk insurance market, with the ultimate increased costs to be somehow born by the “clients”..

Of concern to us, in the proposed scheme, there is also the cumbersome bureaucracy of the “routine” proposed for renewal fees that will add fixed costs to the normal running of the system. Today in fact renewal fees are paid through paying systems that allow bulk payments and large savings both in service fees and actual handling costs (including the patentee's internal ones). The proposed mechanism of “showing” a certificate from insurer to a National Patent Office for it to accept a validation or renewal fee does not fit into such scheme and require a large deal of individual labour intense and time consuming operations ( **yearly** issuing of “individual certificate from the insurers, checking of the certificates by the patentee, sending copies of it in each country where a counterpart of the European Patent exists on/before paying, not to mention the huge amount of work and serious liability and time pressure put on the National Patent Office receiving the certificates and the payments “separately” and having to properly sort out, associate them and certifying the result of all this work, as quickly as possible in order for the public –and the competitors- to know the situation and take the consequent action as necessary/desired...).

For the sake of conciseness, we would like to defer to a later occasion expressing our views on other important aspects of the Study, but we simply point to our concern for the discretion left to the insurer to “cancel the cover” (e.g. 14.24 or 14.29) or “insurer covering both parties” (thus knowing in advance strategy and evidence of both of them, and likelihood of having undue advantage of it...) and we would like to still say something on the suitability of the proposed Scheme (“Option 2”, see 20.2 and 20.8) to “give SMEs better possibilities to defend their rights” (see 3.1.2) or “substantially increase innovation and competitiveness of European companies and hence their long term global competitiveness” (19.4.2). First of all, we must underline that we were unable to find much support in the Study showing that these objectives (taken from EU Commission, EU Council or EU Parliament policy declarations such as the so-called “Lisbon Strategy” or the communication “Promoting innovation through patents”) by the proposed means. To the contrary, we have found several elements that seems to prove that the proposed means are definitely unsuitable to reach the stated objectives.

A few examples:

- By definition, the proposed system cannot actively work in favour of any “*European*” enterprise (be it a SME or not) because it cannot have any “pro-European” bias (for very understandable reasons), see 14.12.1, so it cannot serve the purpose of “selectively” increase



innovation and competitiveness of European enterprises, for instance to meet the objective of the “Lisbon strategy”..

- A definite consequence of the proposed compulsory system is a significant increase in the basic costs for maintaining a patent (the per patent, per country premium yearly add to the costs, that are also significantly increased by the consequent “handling” costs as outlined above), that is likely, for obvious reasons, to be a relatively higher burden for a SME (because of the overall lower expense capability, more difficult access to credit etc)
- As to the chances of benefiting from the insurance cover, the “51% or better” threshold and the fact that it is (quite understandably) subject to insurer (see 15.27 and 14.27) shouldn’t be put at any acceptably high level, in particular for a SME (given its evident irrelevant contractual strength, under the circumstances..)
- Additionally, it should be noted that, notwithstanding some apparently broader statements (see in particular point 3.2.18 the fourth “bullet point”), the Scheme does not foresee any insurance cover for “Defendants” in a patent litigation, except the very special case specified at the end of 14.14.1, which is evidently subject to the “at least 51%” threshold, of course): as a matter of general policy, before stating with certainty that the Scheme will favour “SMEs”, one should have a look as to whether the available data shows that SMEs are more frequently engaged as plaintiff/patentee or as defendants/assumed infringers in a patent litigation cases ..

In conclusion therefore, we cannot support any conclusion that a compulsory insurance scheme of the type and with the features outlined in the Study would serve the stated purposes and thus we recommend the public policy making authorities in Europe to definitely abandon this project.

We would of course appreciate being given a chance to further express our views and concerns should the discussion of the project continue.

With many thanks for you attention to our comments.

Looking forward to hearing from you in due course.

Sincerely,

Francesco Macchetta  
President AICIFI