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VCI Position on introducing a grace period in patent law

(Summary of key arguments)

- From the VCI's perspective, introducing a grace period is not necessary in Germany or in Europe, because the existing German/European patent law has proven effective and ensures the much needed legal certainty.
- A grace period would bring a large degree of legal uncertainty and, consequently, impair innovation.
- Introducing a grace period would make IP management more difficult, especially for small and mid-sized enterprises (SMEs) and universities/research institutes.
- Out of the 5 countries/regions with the highest numbers of patent applications (China, Europe, Japan, Korea, USA) only 3 have grace period provisions in place.
- The outcome of the Tegernsee Consultation shows that grace periods are used only in rare exceptional cases in the relevant countries. Those exceptional cases cannot be the reason for far-reaching legislative changes, such as introducing a grace period.
- Introducing a grace period in Germany or in Europe alone would cause a further fragmentation of the patent law and thus increase the complexity and legal uncertainty for users of the patent system.
- An international harmonisation of grace period provisions would not eliminate this legal uncertainty. It would at best open up the chance of reducing the extra problems which stem from the differences in the shaping of the grace period globally. Therefore, the grace period should be discussed only within an international harmonisation of the patent law.
- Bilateral harmonisation efforts (e.g. within the TTIP negotiations) are rejected, because in particular such bilateral initiatives would not lead to an international harmonisation.

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Some information about the VCI:

The VCI represents the politico-economic interests of over 1,650 German chemical companies and German subsidiaries of foreign businesses in contacts with politicians, public authorities, other industries, science and media. The VCI stands for over 90 percent of the chemical industry in Germany. In 2013 the German chemical industry realised sales of more than 190 billion euros and employed around 438,000 staff.

1. Existing situation in Germany and Europe

There is no grace period in patent law, neither in Germany and in most European countries nor under the European Patent Convention (EPC).

A grace period is a period of time in which an inventor can make the invention public without this step barring the inventor's own application for a patent on this invention at a later date.

Article 3(5) of the German patent act (Patentgesetz/PatG) lays down that the disclosure of a patent subject-matter within 6 months prior to patent filing has no prejudicial effect if that disclosure took place within a presentation of the invention at an official or officially recognised exhibition or is due to an evident abuse of law to the detriment of the patent applicant or his/her legal predecessor. Such protection of exhibitions and reasons of equity should not be confounded with a grace period; this form of protection/equity is also provided in Article 55(1) EPC and in numerous further national patent systems (e.g. Belgium, Netherlands, France, Italy, Great Britain, Austria, Sweden).

2. Grace period in other legal systems

Analogously to Germany and Europe, many other countries worldwide have no grace period. In China, the country with the most dynamically growing number of patent applications, there is no grace period but a regulation under which the disclosure of information at recognised exhibitions or certain conventions or by third parties without the applicant's consent has no prejudicial effect within 6 months. This regulation corresponds to the protection of exhibitions and the reasons of equity under German and European law. The patent law of India has comparable rules.

By contrast, grace period provisions are in place in the USA and in some more countries like Australia, Brazil, Canada, Japan and Russia. But between these countries there are marked differences in the concrete shaping of the grace period. In particular, the duration of the grace period is not regulated uniformly. Further

important questions (e.g. the existence of a mandatory declaration on the use of the grace period or an obligation to publish patent applications) are regulated differently in the various legal systems.

Out of the 5 countries/regions with the highest numbers of patent applications (China, Europe, Japan, Korea, USA) only 3 (Japan, Korea and the USA) have grace period provisions in place which, moreover, are shaped differently.

On the international scale, the above results in a highly heterogeneous situation as regards the existence and the concrete form of grace period provisions.

3. Use of grace periods – The real picture

In 2013 the patent offices of the USA (USPTO), Japan (JPO), Germany (DPMA), Great Britain, France and Denmark as well as the European Patent Office (EPO) carried out a consultation on the international harmonisation of patent law ("Tegernsee survey").

Within this consultation it was enquired, inter alia, about the real use of grace periods by patent applicants in those countries were grace periods were in place.

The results available from this consultation show that patent applicants really use grace periods only in rare exceptional cases:

In Japan over 80% of the respondent SMEs stated to have relied on the grace period in maximally 1% of all patent applications. Roughly a further 10% stated to have used the grace period in maximally 10% of applications. Nearly 100% of the research institutes answered that they resorted to the grace period in maximally 10% of applications. Around 30% of research institutes added that they used the grace period merely in maximally 1% of applications. Finally, over 95% of large companies stated to have used the grace period in maximally 1% of applications.[1]

In Europe 21.6% of the survey participants stated to have needed a grace period less than once per 1000 patent applications (< 0.1%). Another 27% replied that they used a grace period in 0.1% of applications. 43% of the respondents relied on the grace period merely in 1% of applications.[2] The EPO summed up the survey results as follows:
" … for 63% of respondents, the grace period has either never been relied upon or has been a factor in an infinitesimally small number of cases."[3]

Moreover, 61.5% of the respondents in Germany opposed the introduction of a grace period. Among those who had resorted to the grace period provisions in other countries, only well over half (55%) spoke for introducing a grace period in Europe.[4]

In their answers to the USPTO, 82% of respondents originating in Europe stated to have never relied on a grace period.[5]

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[1] Report on Consultations with Users, June 2013, Japan Patent Office, p. 5
[2] CA/PL 4/13, SPLH – Tegernsee User Consultation – Report of the European delegations, marginal 47
[3] Ibid.
[4] Survey results in Germany on international patent law harmonisation (Federal Ministry of Justice/BMJ), p. 7
[5] Report on User Consultation Feedback on Substantive Patent Law Harmonization, p. 14, table 2.5

This outcome of the Tegernsee Consultation should be taken into consideration in the further discussion about the need for a grace period in Germany and in Europe. At all events, the VCI takes the following stance: Exceptional sector- or technology-specific cases of pre-disclosure prejudicial to innovation or regarding the use of grace periods are not representative. Therefore, they should not give rise to calls for a grace period, and they should not be decisive for legal changes of such far-reaching impact.

4. Current state of the discussion on introducing a grace period in Germany and Europe – the VCI's position

4.1 Resurging discussion after the US patent reform

In the past, the question of international harmonisation of the grace period was closely linked with the demand for a comprehensive adaptation of the US patent law to the usual international standards – like the "first-to-file" principle. Several initiatives (inter alia, at WIPO level) did not bring any results, due to the lack of reform to this effect stateside.

Meanwhile, the USA has reformed the national patent law within the "America Invents Act" of 2013, wishing to ensure more legal certainty and to promote innovation through a more efficient patent system. In particular, in this reform exercise the USA moved away from the "first-to-invent" principle that had been in force prior to that date. But other major rules of the US patent legislation remained unchanged. For example, now as in the past the USA has no obligatory requirement to publish patent applications after 18 months. Moreover, the grace period has been reregulated in a complex way which increases legal uncertainty and thus runs counter to the reform goals.

Irrespective of the above, the discussion on introducing a grace period in Europe has resurged after the adoption of the "America Invents Act".

Relevant demands have been made just most recently, mainly by small and mid-sized enterprises (SMEs). There are efforts for bilateral regulation also within the TTIP negotiations between Europe and the USA.

4.2 No need to introduce a grace period

A high level of legal certainty and clear-cut legal rules are central to creating attractive framework conditions and security of investments for companies in Germany and Europe. Furthermore, patents are a major instrument for innovation and thus conducive to growth. Therefore, any new patent rules invariably need to be evaluated in respect of their economic impacts too.

In innovative industries like the chemical industry, companies need to be able to assess the patent situation as reliably as possible before investing in research and development (R&D). For example, this is important in the strategic assessment of fields of technology or of concrete R&D projects – and within this assessment it needs to be found out whether third-party patents stand in the way of own developments or prevent a return on the necessary investment. In professional R&D processes this is done by

way of so-called “Freedom-to-Operate” analyses which constitute legal assessments of relevant third-party patents. If uncertain legal points emerge in the assessment of third-party patents, this can delay the development process or development projects might even be given up entirely. At the very least, it becomes necessary to invest in a deeper assessment of patent law aspects, channelling these funds away from the actual innovation process. This risk increases considerably due to a multitude of open questions in an introduction of a grace period (also see the following item 1.3).

The existing German/European patent law has proven highly effective in practice without a grace period. Concretely, where third-party patents are traced the rules of the German and European patent law enable the identification of an objective reference date (priority date) and of objective reference content (the description in writing of the invention as submitted). This results in a maximum of legal certainty and security of investments.

Consequently, the companies represented by the VCI see no need to introduce a grace period.

But the VCI acknowledges that – especially among some SMEs – isolated problems might arise which the impacted parties attribute to the lack of a grace period. However, the VCI takes the view that these problems are not primarily due to this lack of a grace period and cannot be solved by introducing one. Quite the contrary, a considerable amount of legal uncertainty would be the price to be paid by SMEs and all other users of the patent system for an introduction of a grace period.

Also against the backdrop of the new or planned transparency rules on clinical data (which are brought forward as an argument in some individual instances) there is currently no need to introduce a grace period. Generally, patents in the field of pharmaceutical products are filed a long time before the underlying clinical trials are finalised – and comprehensive transparency rules are to apply only at the end of these trials. Consequently, a grace period is likely to be used only marginally in such cases. Therefore, this sector-specific feature should not be taken as the reason for a change in patent law that would affect all sectors and industries.

4.3 Introducing a grace period would endanger the existing legal certainty

In the existing legal situation in Germany and in Europe, the reader of a (scientific) publication within the above-described “freedom-to-operate” analysis can assume that he/she may freely use the information given in this publication if 18 months after the scientific publication no relevant patent applications of an earlier priority date can be found: because the patent filing for an invention and the technical teaching in that application are usually disclosed 18 months after the filing date. In the existing legal situation, the companies can fully resort to all of the published non-patent literature, use it if they wish and possibly make further developments by way of improvements to existing inventions.

With the immense and constantly rising numbers of scientific publications that come out every year and are generally accessible, the “freedom-to-operate” analysis is a

great challenge to the companies already under existing law. The experiences of companies in countries with grace periods show that introducing a grace period in Germany or Europe would once more significantly increase the amount of research necessary: because after 18 months it can be no longer assumed automatically that the published scientific findings may be used freely, since it would need to be expected – at any time and as a matter of principle – that a grace period is claimed for a patent application.

In this connection, further points of legal uncertainty would ensue and render it even more difficult to assess the patent situation. For example, introducing a grace period would give rise to several questions of whether a pre-publication of a potentially relevant third-party patent takes into account the state-of-the art or not and, consequently, whether a third-party patent constitutes a problem or not. Concretely, the following questions would need to be asked by way of example:

- In the first place: does the third-party patent owner claim the grace period?
- Does the pre-publication really go back to the inventor of the third-party patent?
- What is the course of action with several inventors or joint patent applications (e.g. two companies) if the pre-publication constituting a bar as to novelty was made by only one inventor alone?
- To what extent does the pre-publication need to be taken into consideration as the state-of-the art for the third-party patent?
- How to proceed with verbal disclosures or a general public display?
- In cases of dispute: how long does it take to reach a decision? Must development/production stops of several years be feared?

As described above, a grace period would cause a high level of legal uncertainty and thus be detrimental to innovation.

Moreover, there is the risk of a general increase in legal disputes in connection with the grace period, leading to clearly higher financial burdens for the companies and longer disruptions of development/and or production with an uncertain outcome. These aspects are a major danger to competitiveness, especially for SMEs.

4.4 Situation of SMEs and science

The proponents of a grace period frequently emphasise an alleged need by universities and other research facilities. Their argument is an alleged conflict at universities and research institutes between the necessity of early publication of scientific findings on the one hand and the prejudicial effect of pre-publication on inventions/novelties on the other, holding that this conflict cannot be resolved due to the lack of a grace period.

In their numerous cooperation activities with the above-named partners, the VCI member companies have not encountered any such problems. Rather, the companies of the chemical-pharmaceutical industry note that the recent years have seen a strong professionalization of science in IP management, especially in patent law. This is also

reflected in the setting up of many patent exploitation agencies. From the VCI's viewpoint, these cooperation partners of the member companies are proficient in handling the German and European patent systems. No cases are known of pre-publications with a prejudicial effect on patents having been made by scientific cooperation partners.

Unlike from what some of the stakeholders might expect, introducing a grace period would not make IP management any easier for SMEs and universities or research institutes.

Quite the contrary: with the introduction of a grace period, SMEs and science would need to gather their data for all of their publications and ensure that the grace period has not expired before filing the relevant patent applications. In this context, it is frequently forgotten that a grace period is no general "free ticket" for the disclosure of an invention prior to patent filing. Also with a grace period, deadlines need to be observed, checked and complied with. Needless to say that such deadlines can be missed too.

Moreover, early publication can lead to a loss of legal protection in other countries which have no grace period or where grace periods are shaped differently. This risk exists particularly without an international grace period harmonisation.

Furthermore, the proponents of a grace period entirely overlook that – based on the publication by an inventor – third parties could file their own patent application with an even earlier priority date than that of the patent filing by the inventor him/herself, barring the commercialisation of the invention. Those who are calling for a grace period in order to possibly use it systematically are running high risks. The existing system provides a meaningful incentive – also commercially – to first of all protect innovations under patent law instead of presenting them to third parties practically free-of-charge and "in the comfort of their homes". It is the latter scenario that could bring about a situation where the commercial use of research results is no longer possible or at least no longer attractive.

The existing rules are a positive incentive for SMEs and universities/research institutes to strive for a professional IP management, reducing the commercialisation risks and finally benefitting themselves. As stated above, many scientific institutes realised this fact long ago and have a professional IT management in place.

It is also worth mentioning that existing law gives the possibility to deposit a (written) publication – as a so-called "priority application" – at the German Patent and Trade Mark Office (DPMA) or at the European Patent Office (EPO). This can be done by anyone. Where a swift publication of an invention is necessary, a copy of the publication can be deposited on the same day at the DPMA or the EPO, ensuring the (priority) filing date and thereby the right to the patent worldwide. In numerous cases, there is also the possibility to submit a utility model and to claim the grace period when doing so.

4.5 Existing regulation does not cause competitive disadvantages

In some individual cases, the proponents of a grace period deplore Germany “being left behind” in certain fields of technology, attributing this to the lack of a grace period in the existing patent legislation in Germany and in Europe.

From the VCI’s viewpoint, the alleged shortcomings in the competitive strength and the innovation ability of some sectors/technologies – including, in particular, biotechnology – have nothing to do with a grace period; they are due to the general regulatory framework conditions (e.g. regarding the topic “genetic engineering”). Another major problem is the generally low societal acceptance for these technologies.

Furthermore, where the proponents assume that it was possible to place some top-selling innovations – especially in the pharma sector – on the US market only thanks to a grace period, the mere fact that a grace period was claimed should not lead to the deduction that an unintended disclosure had to be circumvented; we find this deduction per se misleading. The instrument of a grace period might have been used deliberately even though it might have been possible to patent the invention also without the grace period option.

Therefore, in comparisons with other countries it is not always productive to sweepingly attribute alleged shortcomings in the development of certain sectors/technologies to the lack of a grace period.

As regards countries with particularly dynamic economies like China, this argument is bound to fail anyway: because these countries have no grace period.

4.6 International harmonisation of the grace period

In the light of the above considerations, the VCI is not opposed in principle to discussing an international harmonisation of the grace period. At least, an international harmonisation would at best open up the chance of reducing the extra problems which stem from the differences in the shaping of the grace period globally. But the prerequisite is that this is about a genuine international harmonisation that involves all the decisive countries and, most importantly, the countries/regions with the highest numbers of patent applications.

However, an international harmonisation of the grace period provisions cannot eliminate the above-described legal uncertainty.

Consequently, in the event of an international grace period harmonisation, there is an urgent need to ensure that the legal uncertainty, which comes with an introduction of a grace period, be kept to the lowest possible minimum. The advantages that a grace period would bring for a very small number of users must not be paid at the price of disadvantages for the vast majority of applicants and for the functioning of the patent system overall. Furthermore, the international harmonisation efforts should not be limited to the grace period issue; they should also give consideration to further aspects such as e.g. the publication obligation for patent applications and the right of prior use.

Therefore, the grace period should be discussed only within an international harmoni-

sation of the patent law. Here, it is worth noting – as already stated initially – that the existing regulation in Germany and Europe is consistent with the patent laws of many other countries, including China. For this reason, the argument of harmonisation might be in favour of the existing regulation in these countries.

4.7 No bilateral harmonisation of patent law

The VCI explicitly speaks against a harmonisation of individual aspects of patent law at bilateral level, e.g. within trade agreements like the Transatlantic Trade and Investment Partnership (TTIP).

Depending on the concrete shape, introducing a grace period within such a framework could achieve a certain harmonisation with the USA – but only and exclusively with the United States and not with a number of further countries of (increasing) importance like China or Japan: either because those countries have no grace period or their grace period rules are different from those of the USA.

Rather, the harmonisation efforts need to continue at international level; this is the only way to achieve genuine international harmonisation.

A suitable forum for this could be, for example, the “Tegernsee process”.

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