

LES YMC – Paris 2014

Impact of the upcoming UPC and Unitary Patent on Licensing – Q & A

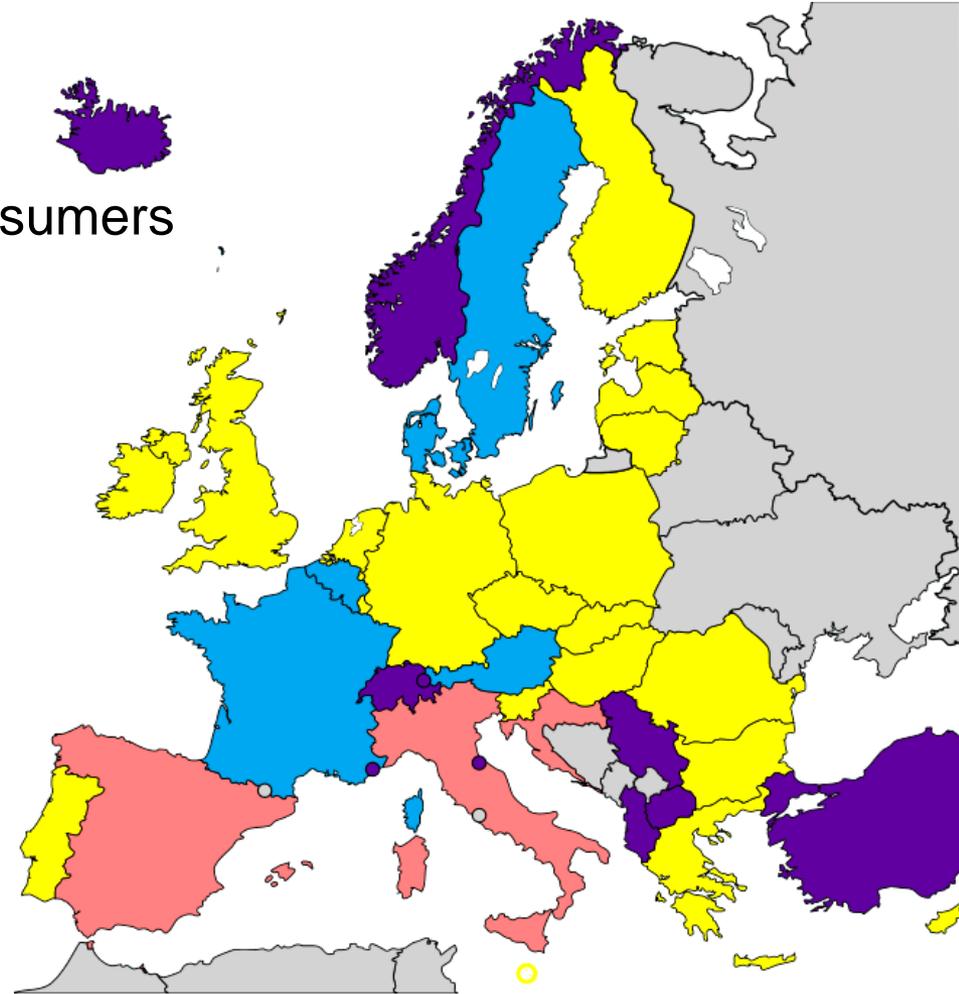
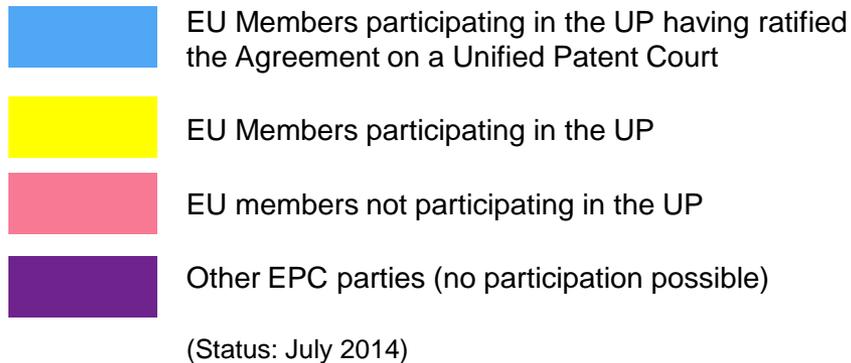


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November 2014

What is the Unitary Patent? What are its main features?

- Covers more than 500 Mio. consumers (USA: about 300 Mio.)



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What is the Unitary Patent? What are its main features?



- Uniform protection and destiny within the protected territory



pan-European **injunction & license!**

pan-European **revocation!**



What is the Unified Patent Court (UPC)?



New EU Patent Litigation

Court, with

- Local / regional divisions,
- Central division in Paris (+ London and Munich)
- Court of Appeal in Luxembourg,



Own European law and procedure! Jurisdiction over Unitary Patents and EPs!

What is the Unitary Patent? What are its main features?



Unitary Patent will be granted by EPO –
no changes in proceedings compared
with EP until grant of the patent

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When will the Unitary Patent come?



- At the earliest 2016



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What will be the renewal fees and translation costs?



- Still unclear – possibly comparable to costs for EP bundle patent designating 3 to 4 member states



Can individual states be dropped?

- No. All or nothing!



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What is in it for me?



- Potentially higher budget but broader coverage
- More licensing income (no antitrust law issues for non-protected states)
- Additional litigation options
- Additional filing options: EP divisional with similar claim; national applications;
- Alternatives: utility model

Thank you very much!



... find more information on the presented topics in our specific firm brochures at www.bardehle.com/en/publications.html

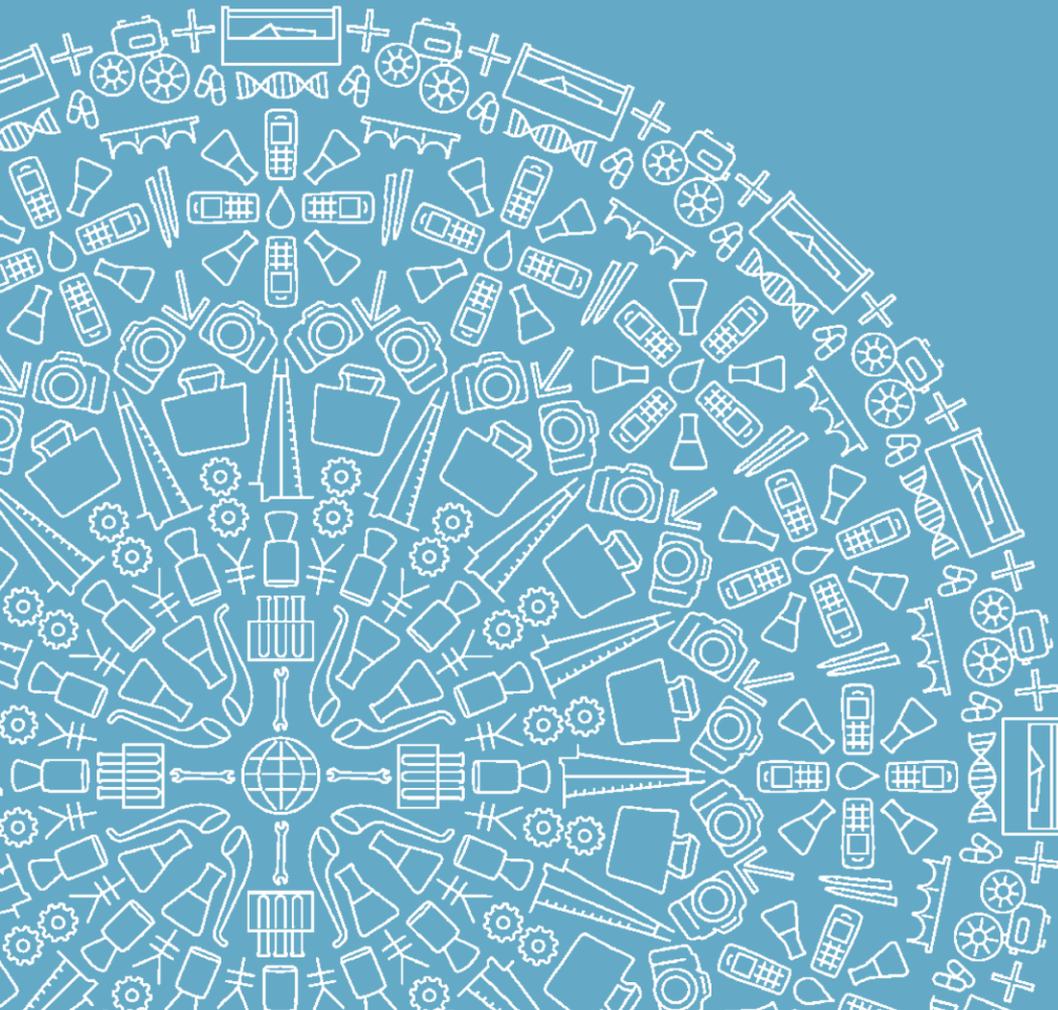
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UPC Round Table Q&A – Opt-out regime and co-ownership

LES YMC

14 November 2014

Helen Rose, Associate



Agenda

Opt-out regime and co-ownership

- What is the “opt-out”?
- Should we opt our patents out?
- Who controls the decision to opt out?
- How does the UPC affect co- ownership rights?
- What should we include in future collaboration agreements?

What is the “opt-out”?

Why was the opt-out regime agreed?

- Making existing EPs subject to UPC jurisdiction was controversial.
- Solution was a transitional period to opt them out (also applies to EPs applied for during the transitional period, but not UPs).
- Transitional period lasts 7 years – extendable to 14.

- (1) “During a **transitional period of seven years** after the date of entry into force of this Agreement, **an action for infringement or for revocation of a European patent** or an action for infringement or for declaration of invalidity of a supplementary protection certificate issued for a product protected by a European patent **may still be brought before national courts** or other competent national authorities.”
- (3) “Unless an action has already been brought before the Court, **a proprietor of or an applicant for a European patent granted or applied for prior to the end of the transitional period under paragraph 1** and, where applicable, paragraph 5, as well as a holder of a supplementary protection certificate issued for a product protected by a European patent, **shall have the possibility to opt out from the exclusive competence of the Court.** To this end they shall notify their opt-out to the Registry by the latest one month before expiry of the transitional period. The opt-out shall take effect upon its entry into the register.”

What is the “opt-out”?

What is the effect of exercising the opt-out?

- Opted-out classical European Patents are not subject to the competence of the UPC and infringement and revocation actions must be brought before the national courts. Opting out a patent automatically opts out its SPCs.

How long does the opt-out last for?

- The opt-out is for the life of the patent, and doesn't end when the transitional period is over (at least, that's the received wisdom).

Can we opt back in?

- Yes, the proprietor can withdraw the opt-out at any point (unless EP has been nationally asserted or challenged in the interim) – but only once!

Does the opt-out apply to all national EPs embodiments OR can we opt-out/back in individually?

- A little uncertainty, but most probably the former: 15th draft rules: “such ousting ... covers all designations owned by the proprietor in question”

Should we opt our patents out?

What are the advantages of opting out?

- Similar to filing strategy issues:-
 - “Better the devil you know” court proceedings
 - Avoid risk of pan-European revocation – loss of royalties on revocation is a concern for licensors

And the disadvantages?

- Fees associated with opting out
- Possible reduction in maintenance costs?
- Broader coverage
- Ability to influence UPC precedent?

Conclusion: opt back in possibility means nothing to lose from opt-out (and protects against central revocation) BUT fees and national challenge issue...

And, there’s still uncertainty about how the opt-out system will operate.

Who controls the decision to opt out?

Who can exercise the opt-out?

- Draft rules – proprietor must lodge an opt out (see Rule 5). Where more than one proprietor, all should lodge an application to opt-out.
- No ability for licensee to opt-out.

Do we need to think the terms of our agreements in relation to this decision?

- **Yes, for existing licenses and collaborations relating to EPs** – consider the provisions of the agreement in relation to patent strategy and costs.
- **For future licenses of European Patents** –
 - an exclusive licensee may want influence or control.
 - agree strategy upfront; whether will opt-out and when?
 - who will pay the opt out fees?
 - agree opt-out as default position?
 - control right to opt-back in?
- Secure co-ordinated approach of co-owners.

How does the UPC affect co-ownership rights?

Why is it important to know which laws govern a patent (including European Unitary Patent) as an item of property?

- Governing law determines fundamental issues such as inventorship, entitlement, how to assign and license the patent and sets out the respective rights of co-owners.
- Default rights vary in each country, according to the type of IPR -
 - e.g. is compensation payable by a co-owner working the invention to the other co-owner?
 - No (UK); No (German); No (US); Yes (France. The co-owner working the invention must compensate the other co-owner. If the co-owners can't agree the compensation, it will be set by the court)

How does the UPC affect co-ownership rights?

How will the law governing a co-owned Unitary Patent (as an item of property) be determined?

- Article 7 of Regulation of EU 1257/2012:
 - (a) the law of the participating member state (“PMS”) in which the joint applicant **listed first** on the European Patent Register (“EPR”) has its residence or principal place of business.
 - (b) If (a) does not apply, the law of the PMS where the **second joint** applicant listed on the EPR has its residence or principal place of business.
 - (c) If (a) and (b) do not apply to any of the applicants, the law of the PMS where the **first** joint applicant has its **place of business**.
 - (d) If (a) – (c) do not apply, the law of the PMS where the **second** joint applicant has a **place of business**.
 - (e) If (a) – (d) do not apply, the laws of **Germany**.

How does the UPC affect co-ownership rights?

Can we give some examples of how this will work?

- Example 1: co-owner 1 is German Registered Company and co-owner 2 is UK Registered Company.
 - Governing law in this case is German law.
 - Unless restricted contractually, either co-owner can assign the EUP without the consent of the other co-owner.
- Example 2: co-owner 1 is French biotech company and co-owner 2 is UK Limited.
 - Governing law in this case is French Law.
 - Unless agreed otherwise contractually, a co-owner wishing to assign the EUP must give notice to the other co-owner otherwise the Court will stay the proceedings until it is done. The other co-owner has a pre-emptive right to purchase the ownership rights. Compensate the other co-owner if only one work the patent. Price to be set by court if not agreed by the parties. No right to grant an exclusive license without the other co-owner's approval.

How does the UPC affect co-ownership rights?

- Example 3: co-owner 1 is US Inc. and co-owner 2 is Canadian entity
 - On plain reading of the Regulation – German Law applies.

What is the effect of this provision?

- A seemingly inconsequential decision as to which applicant is listed first in the patent application could have a major impact on rights and powers of co-owners.

What should we include in future collaboration agreements?

What decisions will co-owners need to make under the new regime?

- Decide as co-owners whether to file European Unitary Patents or a traditional European patent.

Can applicants decide which law will apply to the Unitary Patent?

- No, this will be determined by the rules discussed above.

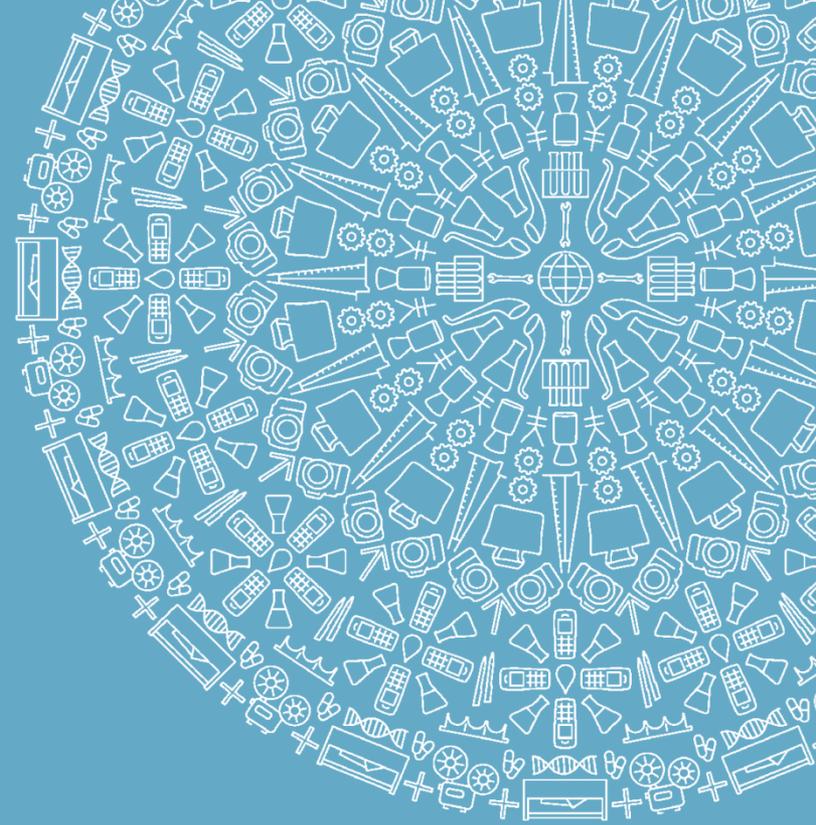
Can applicants can vary their rights and obligations contractually?

- Yes, co-owners should agree:
 - which co-owner will be listed first
 - whether a co-owner can assign without the mutual consent of the other or whether he could sell its co-ownership shares or grant a license without offering the other co-owner the first right to purchase
 - who takes lead on prosecution, exploitation and enforcement
 - any revenue share. This may also dictate the share of each co-owner
 - don't forget to include a further assurance clause

Thank you for your attention

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PARIS, 14 November 2014

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INTRODUCTION

- **Important:** agreements must foresee what UPC disputes will look like
- **Difficult:** agreements must anticipate the jurisprudence and supplement sometimes incomplete provisions:

PLAN

1. Disputes between the parties to a license agreement
2. Asserting a claim against a third party
3. Defending a claim brought by a third party

1. DISPUTES BETWEEN THE PARTIES TO THE AGREEMENT

1.1. **Contractual breach:** possibility to designate UPC or the new arbitration centers in Lisbon and Ljubljana?

- Can UPC apply national law?
 - Article 24 Agreement on UPC
- Has UPC jurisdiction to hear disputes on patent licenses?
 - Article 32 Agreement on UPC
- What if the breach consists in having the licensee exploit the patent outside the scope of the license?
- What if the licensee requests, in the course of infringement proceedings before the UPC the enforcement of a warranty provision against the licensor?
- Have the new arbitration centers in Lisbon and Ljubljana jurisdiction to hear disputes on patent licenses?
 - Article 35 Agreement on UPC

1. DISPUTES BETWEEN THE PARTIES TO THE AGREEMENT

1.2 Revocation of the patent by the licensee

- Former EU block exemption regulation 772/2004:
 1. *The exemption provided for in Article 2 shall not apply to any of the following obligations contained in technology transfer agreements:*
 - (c) *any direct or indirect obligation on the licensee not to challenge the validity of intellectual property rights which the licensor holds in the common market, without prejudice to the possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights.*

- New EU block exemption regulation 316/2014 of March 2014:
 1. *The exemption provided for in Article 2 shall not apply to any of the following obligations contained in technology transfer agreements:*
 - (b) *any direct or indirect obligation on **a party** not to challenge the validity of intellectual property rights which **the other party** holds in the Union, without prejudice to the possibility, **in the case of an exclusive license**, of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights.*

2. ASSERTING A CLAIM AGAINST A THIRD PARTY

Case n°1: various licensees, infringement in one of the licensed countries

- **The case**
 - Exclusive license under a unitary patent to different Licensees in France, Benelux, Germany and UK.
 - A third party infringes the patent in Luxemburg.
 - Licensee in Luxemburg wishes that Licensor defend the patent.
- **The issue**
 - Licensor does not want to bring an action because it does not want to jeopardize its patent to fight against infringement in one non strategic country.



- **If there is nothing in the agreement**

- Licensor cannot prohibit Luxemburg Licensee to start infringement action
- Licensee can start infringement action provided it informs licensor
 - (article 47.2 of the Agreement on UPC)
- Any counter action for revocation must be commenced against Licensor
 - (article 47.5 of the Agreement on UPC)
- If the patent is revoked, all licenses will terminate?
 - Issue under the law applicable to the license.

■ Contractual options

- **Option #1:** Licensee is prohibited from starting infringement actions alone and Licensor refuses to start proceedings
 - Validity of the clause? *Bona fide* performance of the agreement? Breach of explicit / implicit warranty? Abuse of dominant position?
- **Option #2:** Licensee can start proceedings alone provided it will pay (i) Licensor's costs in case of counter-action for revocation and/or (ii) financial penalties should the patent be revoked.
 - (ii) may raise concerns under anti-trust rules.
- **Option #3:** Licensor and Licensee will decide to litigate if one (or more) legal opinions provides a >50% chance to win on validity and on infringement.
 - The agreement should provide a mechanism ensuring a fair assessment of the prospects of success and avoid (or not!) any assessment by one party's counsels.
- **Option #4:** Licensor agrees to defend the patent if Licensee meets minimum sales target.
 - Constructive clause to propose in negotiations (especially by Licensor) because it encourages business instead of providing for a sanction. However, not applicable in all cases.

- **What about the licensees in the other countries?**

- When entering into the license agreement, their goal is to get (*inter alia*) full protection from Licensor, regardless of the situation in another country.
- Therefore, they might be inclined to negotiate:
 - A financial compensation should the patent be revoked due to proceedings in a foreign country, and/or
 - Their prior agreement before commencing any infringement proceedings in a foreign country

2. ASSERTING A CLAIM AGAINST A THIRD PARTY

Case n°2: infringement in a different country than the licensed country

- **The case**
 - Licensors grants an exclusive license under a unitary patent on a consumer product to a Licensee in Germany **only**.
 - A third party infringes the patent in Benelux and France.
 - German consumers go to Benelux and France to buy the cheaper infringing product and sales drop.
 - Licensee wants Licensors to start proceedings in Benelux and France.
- **The issue**
 - Licensors is reluctant because the license in Germany was fully paid-up.



- **If there is nothing in the agreement**
- Can Licensee commence infringement proceedings alone before the Central Division or before Benelux and France's local/regional divisions?
 - Licensee has no right under the patent in these countries
- **Contractual options**
- To provide an obligation for Licensor to defend the patent in other EU member states, even if outside the scope of the license

2. ASSERTING A CLAIM AGAINST A THIRD PARTY

Case n°3: various licensees, infringement in all licensed countries

- **The case**
 - Licensor (a US company) grants an exclusive license under a unitary patent to a Licensee in Germany and to another Licensee in France.
 - A third party infringes the patent in Germany and in France.
 - Licensor and Licensees are willing to commence infringement proceedings.
 - **The issue**
 - Disagreement on where to bring the dispute and the language of the proceedings.



- **If there is nothing in the agreement**

- **Forum of the dispute : Article 33 of the agreement on UPC**
 - Local/regional division of the State where the infringement took place
 - Local/regional division of the State where the defendant has its residence of principal place of business
 - If the defendant does not have its residence of principal place of business in a contracting member state, jurisdiction of the local/regional division of the State where the infringement took place or the central division.

- **Language : Article 49 of the agreement on UPC**
 - Before local or regional divisions: language of the State hosting the division
 - Before central division: language of the patent
 - The parties (to the dispute) can choose another language with the approval of the court

3. DEFENDING A CLAIM BROUGHT BY A THIRD PARTY

- No substantial issues with respect to UPC, as the claimant will decide alone on whether to bring the dispute, the venue and the language
- Specific rules of UPC proceedings can be dealt with in a classic clause with respect to dispute management

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THANK YOU!

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ANY QUESTION FOR
THE PANEL?

MANY THANKS!!

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