The Unitary Patent System From An SME's Perspective

By Klaus Haft

Introduction

Today, patents in Europe provide for national protection on a country-by-country basis. For the future, a Unitary Patent with unitary effect throughout the territory of the participating Member States is under preparation, which will co-exist with today's system. To enter into force, among others the Agreement on a Unified Patent Court (UPCA) needs to be ratified by 13 EU member states, including France, the United Kingdom and Germany. France and 13 other states have already ratified the UPCA. The ratifications by the United Kingdom and Germany are still outstanding and Brexit, as well as a German Constitutional Complaint, are currently adding complexity and delaying the start of the new system.

The extra time can well be used for preparing strategies for the future double-layered patent litigation system. In doing so, due consideration should be given to the fact that future patent filing strategies will include a pre-selection of court systems. This is new, since as of today national patents and European bundle patents are enforced before the same courts and also otherwise treated alike. Thus, strategies for the new double-layered system need to be litigation driven as compared to classic cost driven strategies. For a more general description of the Unitary Patent, see Benoît Battistelli, *les Nouvelles*, March 2015.

I. From Today's System to the UPC–Europe's Future Double-Layered System

(1) Europe's Existing Patent System

Today, an inventor can protect an invention in Europe via a national patent or via a European patent. The European Patent Office (EPO) centrally examines patent applications for European patents, thereby saving the costs of parallel applications in Member States. However, granted European patents must be validated in each country individually in which they are to take effect.

Validation requirements differ between the various countries, and they can cause a number of high direct and indirect costs. These costs may include the costs for translations, validation fees (*i.e.* publication fees that are due in some Member States of the EPC for the translations), as well as related representation costs. These costs increase with the number of Member States in which the patent holder will validate his or her European patent and thus, depending on the patent holder's needs with respect to geographical coverage, may be perceived as acceptable for some countries or as too high for broad protection.

Moreover, due to the lack of a unified litigation system, patent holders and users of patented technology can be exposed to parallel litigation relating to national counterparts of the same patent and involving the same parties in the national courts of different Member States of the EPC. While this is often not the case when SMEs are involved on both sides, where, *e.g.* a decision in one country like Germany may well foster a global settlement, it becomes more of an issue if a broader coverage of injunctive relief is needed as in many pharmaceutical or telecoms cases.

The possibility of diverging decisions is often criticized in this context. However, bearing in mind that there also happen to be unclear cases where dissenting opinions can all be well founded, a patent holder may also consider parallel litigation as preferable over putting all eggs in one basket as it will be possible in the future system. An obvious drawback, though, are the required cumulative costs if broad coverage of injunctive relief is needed.

(2)The Future Unitary Patent and UPC Layer

The Unitary Patent (UP) is a European patent for which upon request by the patent holder unitary effect will be registered by the European Patent Office (EPO) for the entire territory of the participating Member States of the UPC (Contracting Member States). No fees are due before the EPO for the filing and examination of the request for unitary effect, as well as for the registration of unitary effect. In terms of renewal fees, a single payment for all of the up to 26 participating Member States will be introduced, at a level equivalent to the combined renewal fees of the top four participating Member States where a European patent was most frequently validated at the time the renewal fee pattern was adopted (Germany, France, The Netherlands and the United Kingdom). For the first 10 years, which is the average lifetime of a European patent, the aggregate costs of paying renewal fees for a Unitary Patent will be less than EUR 5 000. This should be a rather business-friendly renewal fee scheme, not least for SMEs.

The UPC Agreement will establish a unified and specialized court in patent matters for the Contracting Member States for which the agreement enters into force (the Unified Patent Court or UPC). It will have

local and regional divisions to handle among others infringement cases (in the following marked orange and yellow, whereby the countries entertaining regional divisions are only confirmed with respect to the Nordic states), as well as a central division handling among others revocation actions (marked green) in Figure 1.

The new court will allow for enforcing classic European patents (EPs) and Unitary Patents (UPs) in one go and may with regard to classic European patents thus limit needs for parallel litigation relating to national counterparts of the same patent and involving the same parties. At the same time, from a patent holder's perspective, it would put all patent protection for Europe at risk in one litigation, which may be perceived as a drawback at least as long as the users had no chance yet to experience the new court and its practice—bearing in mind that also today patent invalidation rates are said to be higher in some countries than in others.

The jurisdictional reach of the UPC will also have a retroactive effect on already granted classic European patents that will be pending at the time the UPC enters into force. Starting on the day the UPC opens and until the end of the transitional period of seven years, owners of existing classic European patents will have the possibility to actively opt out of the UPC by notifying the court's registry, unless the patent is already challenged before the UPC. Patents, which have been opted out of the UPC system, may have the opt out withdrawn at a later date, *i.e.* opting back. National Patents (NPs) will remain under national jurisdiction. The resulting double-layer system may be depicted as follows in Figure 2.

II. Strategy Considerations

(1) Litigation-Driven Filing Strategies

From a litigation perspective, during said transitional period, there are three choices: UPs to be tried before the Unitary Patent Court, NPs to be tried before national courts and EPs with temporary flexibility in this respect. Most likely, for most SMEs, a blend of these options would serve the purpose best. In developing eligible filing strategies, various factors have to be balanced against the broader impact of a UP, whereby numerous uncertainties are to be figured in.

(a) Impact Versus Costs

The costs of litigating in front of the UPC will likely be higher than litigating before *e.g.,* a German court alone, but possibly be cheaper than litigating before the UK court or in multiple jurisdictions. However, it is foreseen that SMEs benefit from fee reductions at the UPC. A fact specific cost-benefit analysis is thus required to develop the right tailor-made strategies.

One overriding aspect would certainly be the likely use of a patent: in non-litigious industry sectors, prosecution costs may be the decisive factors, such that patents mainly serve for bargaining and balance of powers. However, such status quo may change rather quickly compared to the live time of patents—as can be seen in the telecoms sector—and litigation may play a significant role going forward. If so, a company in question may want to actively enforce own patents or to use own patents rather for defensive counter-actions.

■ Klaus Haft,
Hoyng ROKH Monegie,
Attorney,
Düsseldorf, Germany
E-mail: klaus.haft@hoyngrokh.com

Either way, the question arises what impact will be needed in such situation. In case of local competitors manufacturing in the same country, NPs may be good enough and more cost efficient to achieve the purpose. Equally, in cases where marketing in the EEA would become pointless if one or few important markets are cut off, NPs or EPs litigated before national courts might still give the better cost-benefit ratio. However, if need for thorough enforcement in a broad variety of countries is foreseeable, UPs might be the better choice. Finally, in case of a fast moving environment or uncertainty otherwise, EPs togeth-

Figure 1. Divisions Of The UPC

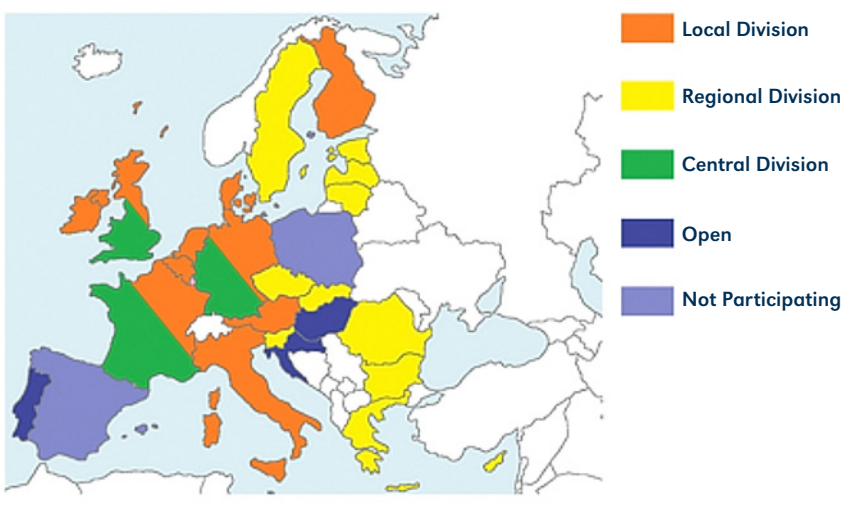
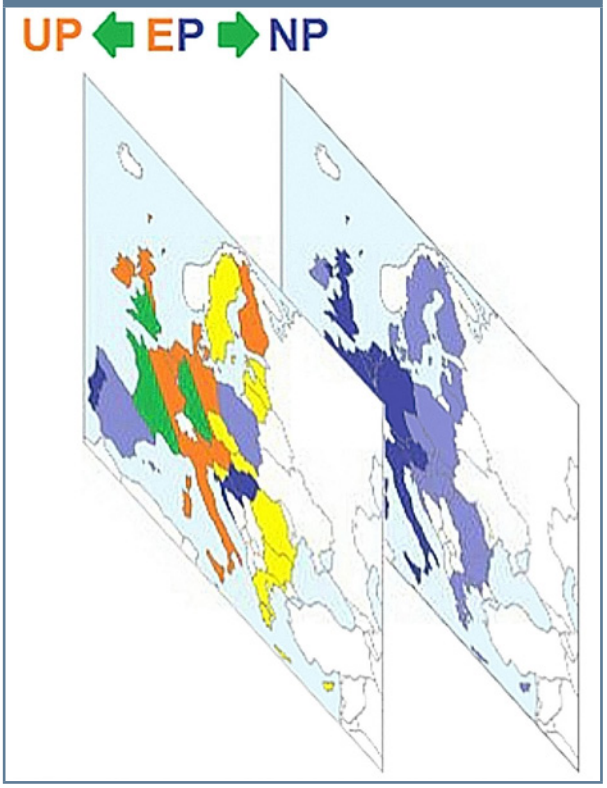


Figure 2. The Double-Layer System



er with an active opt out policy may give most flexibility for the transitional period.

For completeness, enforcement of UPC decisions remains national and it is yet unclear how this will play out in practice.

(b) Impact Versus Risk

Proprietors of patents that are particularly important from a commercial standpoint will face a tradeoff between Europe-wide enforcement and the risk of central revocation by a single UPC ruling. Patent proprietors with patents that face a higher likelihood of invalidation may wish to avoid that latter risk by pursuing European Patents (validation of EPs at national level, as is commonly done today, and then opt them out of the UPC jurisdiction) or by considering the historical mode of a filing of a national patent application.

In cases where patent proprietors wish to hedge the risk of central revocation, they may also benefit from pursuing a parallel national patent application, which may be possible in some countries: In Germany it is proposed to allow a double protection of an invention by a NP and a UP/EP, which was not opted out from the jurisdiction of the UPC. A double protection through a NP and a UP is also foreseen in Austria and the Scandinavian countries, and possibly other states might follow this approach. As mentioned above, the UPC has no jurisdiction regarding the infringement and revocation of NPs. Therefore, the national courts would exclusively deal with such cases. A corresponding effect may be achieved by means of utility models.

For completeness from a patentee's perspective it may also make a decisive difference that some countries like Germany do have a bifurcated system, where typically infringement is heard first and—if a case is not stayed pending a separate nullity action or opposition—the infringement decision alone may result in a settlement. Thus, it frequently happens that validity is never discussed in full, what is most likely different before the UPC for most cases, and what is less desirable, but still the reality from a defendant's perspective.

(c) Impact Versus Timing

In particular, if patents are used to react on offensive actions by competitors, timing plays an important role. In fact, quite frequently there is a race on who will be getting an injunction first, with the consequence that the winner of said race may have the better leverage to achieve a beneficial settlement.

Thus, while of course a broad impact may be desirable in such defensive situation, the respective possibility may remain meaningless, if an injunction in favor of the opponent occurs based on an NP significantly earlier. Correspondingly, it should be analyzed whether in the jurisdictions being relevant for known competitors injunctions are possibly available on a faster track than before the UPC and if so, also NPs (or opted out EPs) should be considered. A corresponding analysis is complex though to the extent that also preliminary injunctions are figured in.

For completeness, under Art. 63 (1) of the UPCA, the Court "may" grant injunctions. While it remains seen to what extent discretion is deducted from that provision, national courts frequently do not apply discretion. Thus, depending on the yet to be built practice of the UPC, this may also make a decisive interest in terms of impact. On the other hand, the so called long arm of the UPC also allows for preliminary measures outside geographical coverage of the UPC, as well as collection of damages arising from infringement of EPs outside the Union (Art. 71b (2), (3) Regulation (EU) 542/2014, 1215/2012).

(2) Other Issues to be Considered

For UPs, the applicable law "as an object of property" is the national law of first applicant's member state (Art. 5 (3), 7 Regulation (EU) 1257/2012). Thus, the seat of the respective subsidiary filing the patent application, or, in case of co-ownership, the order of applicants matters. In addition, where the applicant has no place of business within Europe then the default position will be the application of German law applies, which might be of particular relevance for co-ownership and license agreements in light of the particularities of German law compared to other laws.

Further, licensing, development and co-ownership agreements may affect the right to opt out. To avoid unnecessary disputes, patentees must examine their existing agreements, in particular their exclusive licensing agreements, to determine whether the licensee may have been granted the right to impose on the patentee a decision on whether or not to opt out. The parties to any licence agreement should also be aware of the provisions relating to who can be a party to an action before the Unitary Patent Court:

- Unless the agreement provides otherwise, an exclusive licensee shall be entitled to bring actions in the same circumstances as the patentee, provided notice is given to the patentee.
- A non-exclusive licensee can bring an action if the agreement expressly provides for it and notice is given.
- The patentee may join the action commenced by a licensee, but validity can only be contested if the patentee participates, *i.e.,* the opposing party or plaintiff, will have to bring a revocation action against the patentee.

The Unitary Patent will cover automatically EU countries which have ratified the UPCA that currently might not be the typical choice for patent owners to seek protection in. This bears the risk that companies not currently in conflict, meaning there is freedom-to-operate due to a lack of patent protection in those countries, may find themselves on either side of an infringement action. This will make a timely freedom-to-operate, or infringement analysis, even more important than in the past.

III. Conclusion

There does not seem to be any one-size-fits-all type of solution. Rather, the specific environment and strategy of a company should serve as starting point to develop a tailored solution for the likely needs. Most likely, a reasonably cost efficient blend of UPs, EPs and NPs may be the resulting choice, whereby the specific distribution appears highly fact-dependent. Specific care has to be taken with regard to existing and new license agreements. ■

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