



On the verge of the UPC

The single European Patent is now closer to reality than it has ever been in its decades-long journey. **Anita Varma, Edward Kelly and Charles Larsen**, IP partners at Ropes & Gray give us the lowdown.

On 11 December 2012, the European Parliament approved the EU Patent Package. The package consists of two sets of regulations and one international agreement. The first set of regulations creates a European patent with unitary effect (or unitary patent). A second set of regulations establishes an applicable language regime. The final, and perhaps most important piece, is an international agreement among the member states to set up a single and specialised patent court, the Unified Patent Court (UPC).

As has been well reported, the EU used enhanced cooperation to pass the package, a process that allows a non-unanimous vote to bring a regulation into being. Right now, 25 member states of the EU support the package. However, Italy and Spain declined to participate due to a disagreement over language arrangements. Further, Italy and Spain brought an action before the Court of Justice of the European Union (CJEU) to stop implementation of the package. Early guidance from the CJEU indicates that it will allow the regulations to go into force. A final decision from the court is expected in the coming year.

Timing

The EU is targeting early 2014 for the UPC to enter into force. However, the UPC will come into force only when 13 EU states, including the three EU states with the largest number of European patents in force, have ratified the agreement. At present, those three EU states are Germany, France and the UK. Recently, the UK raised the possibility of holding a referendum on withdrawing from the EU. If the UK were to refrain from signing and subsequently withdraw from the EU, then the EU will need to identify the Member State with the next largest number of European patents in force. This process, of course, could slow things down significantly.

Additionally, if the UK were to withdraw from the EU, it would be unlikely that the seat of the UPC will have a section in London, as is presently the case. Article 7 of the UPC agreement locates a section of the Central Division of the Court of First Instance in London. If the UK wants to withdraw from the EU, a new location for this section of the Central Division will need to be selected by the Administrative Committee of the UPC.

In any case, the EU is ready to bring into being the UPC and a patent right with unitary effect across the European Union. The member states may change, but the patent right should stay the same.

Primary differences

Procedural differences between procuring a patent from the EPO today, a "classical" European patent, and a unitary patent lie in the post-grant phase. Both types of European patents will be examined and issued centrally by the EPO, according to the rules of the European Patent Convention. Once the EPO deems a patent application should be granted as a patent, the applicant must decide whether to have the patent take effect as a unitary patent or remain a classical European patent. A classical European patent operates as a bundle of national patents that must be validated in each state for which the patent proprietor wishes protection. Validation typically requires that the granted patent be translated into a language acceptable for each state in which it will take effect, be formally registered in each state and be maintained through payment of a renewal fee to each state in which the patentee wishes protection. Essentially, this means completing the paperwork and paying the fees needed to have a given state register the granted European patent as a national patent of that state. Rights then flow to the patent holder through that national patent. Renewal fees are paid to the separate national patent offices and all other administrative matters, such as registration of licenses, liens or transfer, are also to be done on a state-by-state basis.

By comparison, an applicant that chooses to have a patent take effect as a European Patent with unitary effect (ie, a unitary patent), will register the patent at the EPO as having unitary effect, and supply one translation. No additional steps need be taken for the EU states, and the unitary patent will provide protection in all EU Member States that accepted the package. As the EPO acts as a granting authority for European states that are not members of the EU, such as Switzerland, the traditional validation process will still be followed for those non-EU states. For the EU states that accepted the package, the EPO will provide central administration of the registered patent, and will record assignments, accept renewal fees and perform other administrative functions.

Although this point may seem clerical, from a cost perspective, having a single location to record changes in ownership or grant of licenses can greatly reduce transactional costs arising from the sale of a company or business division that owns a substantial number of patents.

The UPC will replace, in time, the existing system of enforcement

of European patent rights on a country-by-country basis. Under the EU package, following a transitional period of seven years, the UPC will have exclusive jurisdiction over the settlement of infringement and invalidity disputes invalidating European patents, whether classical or unitary. The UPC will render a judgment that is enforceable in all participating member states. Specifically, Article 34 of the agreement establishing the UPC states that, "Decisions of the court shall cover, in the case of [classical European patents and European patents having unitary effect], the territory of those [member states that have joined this agreement] for which the [patent] has effect".

The UPC will decide issues of infringement and revocation. Under Article 34, these decisions take effect in all member states that joined the UPC and granted either a classical or unitary patent right.

This unitary effect of infringement and revocation decisions increases the stakes of litigation. Those wishing to avoid a unitary decision may, under Article 83 of the agreement establishing the UPC, opt out from the exclusive jurisdiction of the UPC and bring and defend actions before the national courts. Article 83 also allows a patent proprietor to rescind an earlier decision to opt out and opt back into the jurisdiction of the UPC. This opt-out provision extends for seven years, after which time, unless it's not extended, the UPC will take exclusive jurisdiction of disputes arising from an EPO-granted patent.

Global impact of the UPC

On the global level, a unitary patent will affect the decisions companies make when managing their global patent portfolios. The unitary patent will, if all EU member states join, cover a market that has about a \$17.5tn GDP and about 500m citizens. Essentially, this means all of Western Europe.

Company IP counsel interested in securing significant, but not worldwide, patent rights can combine the European unitary patent with a US patent and a Chinese patent to cover more than 55% of the world's market by GDP. From a cost and management perspective, the unitary patent can make patent procurement significantly more cost-efficient. Increasing the value of the EU patent right may have the converse effect on the value of other national patent rights. Companies will need to consider the increased value of the EU patents in their portfolio when considering whether to procure rights in other jurisdictions.

Costs

The UPC is designed to save applicants money and, from a review of the structure used, this result should be achieved. Specifically, the UPC provides an applicant with the option of securing a European patent with unitary effect. The cost of taking that option has not been announced. However, early press reports from the EU suggest that within the seven-year transitional period, the cost of obtaining a unitary patent is predicted to be about €6500 including the cost associated with the additional translation. Once high-quality machine translation becomes available, the cost is predicted to drop to around €5000. By comparison, obtaining a European patent that would be valid in all 27 EU member states today can cost up to €36000.

Importantly, from a cost perspective, the UPC leaves intact the classical European patent. Thus, an applicant can continue to use the EPO to apply for patent rights in a limited number of EU states, and will only pay for validation and renewal costs in those states.

Additionally, the unitary patent provides for discounted fees for small and medium entities, enabling qualifying entities to pay half the cost. Offered by the US and Canada for years, a reduced fee program was clearly implemented by the EPO to encourage universities and small venture-backed companies to secure rights to their inventions. The reduced fee structure has not been published.

The unitary patent will be centrally administered by the EPO and will

require a single annual renewal fee, eliminating the need for separate maintenance fees to be paid to the national patent offices. Patent rights can be transferred, limited, revoked, lapsed or exhausted as a whole for all participating member states, with territorial licensing explicitly allowed.

As noted earlier, the EPO will act as a central register of ownership rights. Although this may seem a small change, it is not. The cost savings achieved by having a centralised record of ownership can amount to tens of thousands of dollars during corporate transactions involving substantial patent portfolio transfers.

The UPC

Structurally, the UPC consists of a Court of First Instance, a Court of Appeal, and a registry.

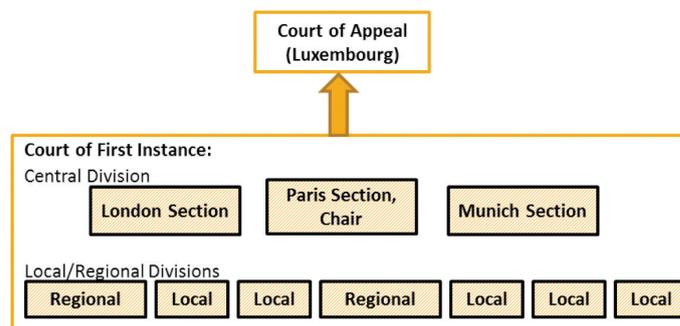


Figure 1: General structure of the Unified Patent Court

As Figure 1 illustrates, the Court of First Instance is organised into local divisions, regional divisions, and a central division. Local divisions may be established in participating member states, with a maximum number of four per country. Regional divisions may be established to provide a venue for two or more participating member states when local divisions do not exist.

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The central division will be chaired in Paris, with sections in Munich and London. Cases before the central division are distributed, at least in part, according to International Patent Classification (IPC) subject matter. London will preside over life sciences inventions, including pharmaceuticals, biotechnology and medical devices; Munich will preside over auto and mechanical inventions; Paris will preside over the remaining categories, including computer-implemented inventions and information and telecommunication technologies.

The Court of Appeal will be seated in Luxembourg. A public registry will be established to keep records of all cases before the courts.

Each case filed at a Court of First Instance will be heard by a multinational panel of three judges, unless parties agree to have their case heard by a single legally qualified judge. The pool of judges will be

established from legally qualified judges and technically qualified judges with relevant qualification and experience.

In local divisions, all three judges must be legally qualified. An additional judge with qualifications and experience in the field of technology concerned can be allocated from the pool upon request. If fewer than 50 cases are commenced in a member state during a period of three successive years, only one of the three judges may be from the Member State hosting the local division. If 50 or more cases are commenced in that court, two of the three judges may be from the hosting nation; the other legally qualified judge(s) will be allocated from the pool and will be from a different country.

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In regional divisions, all three judges must be legally qualified, with an additional technically qualified judge allocated from the pool upon request. Two of the three judges should be nationals of the participating member states concerned, while the other one will be allocated from the pool and shall be from a different country.

The central division will have panels that include a technically qualified judge. Two of the three judges should be legally qualified, and should be nationals of different participating member states. The third judge must be technically qualified and allocated from the pool. One exception to this requirement is that any panel of the central division dealing with actions concerning decisions of the EPO in carrying out tasks related to the implementation of the unitary patent system should consist of three legally qualified judges.

Appeals cases before the Court of Appeal will be presented to a multinational five-judge panel. Two of the five judges must be technically qualified, while the other three must be legally qualified and selected from different participating member states.

Ongoing, centralised training will be provided to judges sitting on the UPC, with an emphasis on linguistic skills and technical aspects of patent law. Regular meetings will also be organised to facilitate discussions on patent law development and to ensure the consistency of the court's case law.

Bifurcation

When a counterclaim for revocation is brought during an action for infringement, local or regional courts have the discretion (but are not required) to bifurcate. The entire case can be forwarded to the central division if all involved parties agree; the revocation case can be forwarded to the central division while the infringement proceeding is suspended or continued at the current court; or both infringement and

revocation can be decided jointly at the current court.

The UPC will refer to the Court of Justice of the EU questions related to the interpretation of the regulations establishing the unitary patent system, and questions on the interpretation of EU law.

Protection against abusive practices

Many worry that the UPC will support campaigns of meritless patent litigation comparable to those high-tech companies have seen in the US. A closer look at the UPC agreement reveals several procedural mechanisms that should prevent this type of abuse. For example, Article 69 of the UPC establishes a “loser pays” forum, eliminating the ability to bring “no-cost” litigation. Additionally, Article 33 of the UPC prohibits the joinder of unrelated defendants. This prohibition is similar to Section 19 of the America Invents Act (AIA), which prevents grouping of unrelated defendants a provision that was secured by the US high-tech industry to eliminate a common strategy of abusive patent proprietors. Under Article 63, injunctions under the UPC are discretionary, similar to injunctions in the US. Many litigators will remember that in 2006 the US Supreme Court clarified that injunctions in US patent matters are a matter of equitable discretion and not automatic. This clarification eliminated a major weapon of abusive patent proprietors. The UPC adopts the defendant-favorable position that injunctions are discretionary, rather than the earlier US law and current German law that injunctions are essentially automatic.

Additionally, the UPC does not provide juries. Decisions are made by a panel of judges, which can include judges trained in the technology at issue.

Further, judges get limited appointments, which may be renewed. The initial term is six years. Appointments are made by a committee observed by the European Commission. A judge allowing abusive litigation would likely not be appointed to a second term.

Finally, the UPC is designed for efficiency and economy, undermining the ability of an abusive patent proprietor to force settlements based on the transaction cost of litigation.

These procedural considerations provide good incentive to reduce game-playing and prevent abuse.

Authors



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