

Alert 01 August 2022 | 3 min read

“Like a Phoenix from Ashes” – The UPC is finally under way

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After decades of drafting and negotiating, the Unified Patent Court ("UPC") is finally set to go ahead. The year 2022 has been dynamic for this new European court: The regulations on the unitary patent entered into force together with the Agreement on a Unified Patent Court in January 2022. Since July 9 of this year, the UPC's 90 full- and part-time judges have successively learned of their new positions. In addition, most of the locations of the local divisions have recently been confirmed.

An exclusive court system and unitary patent

Does all of this mean that good things come to those who wait? The answer is not clear. In any case, this development poses risks and challenges for patent holders and requires a new management strategy for patent portfolios.

The UPC will be a court of all participating EU Member States, which will have exclusive competence to decide, inter alia, on the infringement and validity of classical European Patents (European Patents) and the new European Patents with unitary effect (Unitary Patent). The provisional application phase is expected to be completed in September 2022, allowing the unitary patent system to enter into force in the second half of 2022. There will then be a European patent with unitary effect for the participating member states. For the remaining countries—in particular, Switzerland, Turkey, Norway and Spain—separate national phases must still be initiated.

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From that date onwards, European patents can be nationalized with uniform effect for all participating member states. This will also apply to existing European patents, unless opted out. The main effects of the UPC system make it a double-edged sword for patent holders.

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“Survival of the fittest”: Advantages for strong patent portfolios

The system has certain advantages over the original European patent: coverage in more than 17 countries through a single patent right; simplified administration and enforcement and significantly reduced costs, especially less translation costs for national patent offices.

However, it also comes with considerable disadvantages: A unitary patent cannot be subject to an opt-out of the UPC system. It is therefore no longer possible to adjust the coverage of European patents over the patent term by allowing the patent to lapse in selected countries. If a unitary patent is revoked in opposition or litigation, coverage in all countries is lost. This "domino effect" needs to be reflected in future corporate patent strategies.

Hence, patent holders are confronted with both significant risks and also new options. In order to decide whether to go for the UPC application or use the opt-out for existing European patents, European patent holders have to consider one essential question: How strong are my patents?

It is crucially important to note that the already existing European patents can be enforced as well as uniformly attacked via the UPC together for the designated member states. In addition, the UPC has extensive discretion—the system follows a bifurcation approach for both validity and infringement proceedings. Actions can be brought in the first instance before courts in the various participating member states. Overall, very streamlined procedural rules are envisaged, enabling swift infringement judgments, which are expected to take less than one year, including an action for annulment. Once an action has been brought before a UPC court or the patent holder is the defendant in a case, it is no longer possible to opt-out.

Overall, the system of unified enforcement and jurisdiction makes strong patents much more valuable while weak patents will become more vulnerable. For example, small or startup companies who have relatively few products in their pipelines could see their businesses devastated if the patents covering the technology are subject to a central attack; and, similarly, investors in those companies may be equally concerned about this risk.

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In conclusion, both the opt-out decision and the general decision of whether to apply for a unitary patent have to be based on an assessment of the patent portfolio's strength.

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