

AS DISCUSSED IN OUR *Overview of the Unified Patent Court* publication, the prior installment of our two-part series on the Unified Patent Court (UPC), the UPC and Unitary Patent (UP) system launched on June 1, 2023. While the new UPC is, as of now, an untested system without its own substantive law, it has enormous potential to reshape global patent law, with jurisdiction over revocation and enforcement actions across 17 EU member states, including some of the largest patent forums like Germany and France.

Patent holders and challengers need to give immediate thought to strategies for maximizing their competitive positions in this new, untested forum. For example, patent owners should consider whether to opt out certain patents, patent challengers should monitor whether patents of concern have been opted out and develop offensive strategies based on the patent owner's decision, patent applicants should decide whether to seek traditional European Patent (EP) or UP protection, and licensees should consider how to ensure that their interests in licensed patents can be maximized.

Ropes & Gray stands ready to assist clients with UP and UPC issues across our IP litigation and IP transactions groups, in collaboration with our top-tier European partner firms.

### A. WHAT IS THE UPC'S "OPT OUT" PROCEDURE?

On March 1, 2023, the court entered its seven-year transitional period, during which patent owners were provided with the ability to opt out of the UPC in favor of traditional European patent litigation in national courts. As of the launch of the UPC on June 1, 2023, patent owners had opted out more than 400,000 patents, and the number of opted out patents continues to grow.

This fundamental choice continues to raise a number of new strategic considerations for patent owners, patent challengers, applicants and licensees alike.

For example, the lack of a track record and precedent creates inherent uncertainty for the UPC and further complicates the decision-making process. We address some of those strategic considerations below.

### B. WHAT SHOULD CURRENT PATENT OWNERS CONSIDER?

For patents that are likely to be litigated, it is imperative that patent owners immediately evaluate whether those patents should be opted out of the UPC system, because once a UPC action is brought against an EP (e.g., a revocation action by a patent challenger), the patent will be subject to a single UPC action that will be effective across all states in which the patent was validated, the patent owner will have lost its ability to opt the patent out of future UPC proceedings, and the patent owner will also be precluded from adjudicating at least the validity of its patent through the national court system. Thus, a patent owner will be undertaking significant risk by not opting out of the UPC, especially if there is a risk that the patent's validity will be challenged.

On the other hand, if a patent is initially opted out (and therefore not subject to a single UPC action), the patent owner has one opportunity to withdraw the opt-out to bring the patent back within the UPC's jurisdiction. Risk-averse patent owners who may be skeptical of the untested UPC system could benefit from a "wait-and-see" approach, by initially opting out of the UPC regime. In most cases, the patent owner will have the opportunity to reevaluate whether to proceed before the UPC or national courts after considering the precedent developed by the UPC over the coming months and years.

Applying an opt-out strategy is not without its own set of risks, however. If a patent challenger files an action against an opted-out patent in a national court, the patent owner will no longer be able to withdraw its opt-out, even if that national court action is later terminated. This strategy has been nicknamed the "opt-out torpedo." For certain patent owners, the benefits of a single UPC infringement action and the risk of a patent challenger filing an action in a national court may outweigh the benefits of opting out or applying the "wait-and-see" approach.

In considering whether to opt out, patent owners should at least weigh the following factors: the value of the patent; the likelihood of litigation and in which jurisdictions the patent may need to be litigated; and the likelihood that the patent's validity may be preemptively challenged. In some cases, it may be prudent to opt out part of a patent family while maintaining other family members within the jurisdiction of the UPC.

Any attempt by joint owners to opt out requires scrupulous attention to detail. An opt-out is only effective if all owners of a patent agree. For example, if an existing EP's ownership is jurisdiction-dependent, and the opt-out does not cover all

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jurisdictions in which the EP was validated, the patent will remain subject to attack at the UPC despite a partial owner's attempt to opt out of the UPC's jurisdiction.

## C. WHAT SHOULD POTENTIAL PATENT CHALLENGERS CONSIDER?

Patent challengers, including anyone facing a potential patent assertion in Europe, should review the UPC's list of opted out patents and consider filing revocation proceedings for patents that remain within the UPC's jurisdiction. It is likely that certain patent owners are not currently focused on protecting their patent assets and may not be diligent in seeking to opt out. It is therefore important to act expeditiously to challenge these patents at the UPC prior to the patent owner opting out.

This strategy allows patent challengers to attack the validity of a patent in every state in which the patent was validated through a single proceeding. It also reduces the patent owner's ability to forum shop across the national courts and local/regional divisions, because revocation proceedings are assigned to the central division (currently Munich and Paris, and Milan in the future).

If a patent has already been opted out, then litigation must take place in individual national courts. However, the patent owner can withdraw the opt-out so long as a national litigation has not been filed. One strategy for an opted out patent is the "opt-out torpedo," in which a patent challenger files an action in a favorable national court to prevent the patent owner from withdrawing an opt-out and entering the UPC. Patent challengers will likely identify national jurisdictions with low filing fees and a minimal risk of cost reimbursements by the losing party for these torpedo actions.

## D. WHAT SHOULD PATENT APPLICANTS CONSIDER?

Applicants should weigh the comparative benefits of a UP, including broader protection and decreased costs, against a traditional EP. Critically, a granted UP does not include protection in two of Europe's largest economies—the United Kingdom and Spain. In fact, excluding Germany, France and Italy, the remaining 14 UPC participating states collectively represent a population that is not much larger than the United Kingdom. Applicants should therefore consider whether to rely upon the streamlined UP process or instead the German, French, Italian, U.K. and Spanish national systems for greater protection and enforcement potential.

Applicants looking for a balanced approach may consider filing some patent applications (such as fundamental or apparatus patents) as EPs, while filing other patent applications directed

to narrower applications of those fundamental patents (such as methods of use) as UPs. In other words, the increased scope or importance of a patent may justify seeking EP protection in important jurisdictions, such as Germany, France, the United Kingdom and Spain, while other less valuable patents would benefit from the decreased cost and efficiencies of the UPC.

Patent applicants will have one month after a pending application is granted to opt out of the Unitary System, but unlike patents issued prior to June 1, 2023, a patent that issues with unitary effect cannot later be opted out.

## E. WHAT SHOULD PATENT LICENSEES CONSIDER?

Licensees may be in a challenging position because the decision to opt out of UPC jurisdiction rests solely with the patent owners rather than the licensees, and most current license agreements are unlikely to address the opt-out decision-making process. For example, a patent owner seeking to minimize costs may seek UPC protection, while an exclusive licensee interested in maintaining broad exclusion may believe that a traditional EP validated in multiple states is the better option, albeit at a higher cost. Where a licensee's interest diverges from the patent owner's, there may be no existing framework to address those differences or ability for the licensee to dictate how the licensed assets should be treated. For any patent that is opted out, licensees should scrutinize the patent owner's filings to confirm that all owners have properly opted out.

## F. CONCLUSION

The time to consider the impact of the UPC is now. Ropes & Gray, in collaboration with our top-tier European partner firms, are on the cutting edge of this new patent forum and stand ready to advise on all UPC and UP matters.

## CONTACTS



### Steven Pepe

Partner, New York

[steven.pepe@ropesgray.com](mailto:steven.pepe@ropesgray.com)

+1 212 596 9046



### Matthew Shapiro

Counsel, New York

[matthew.shapiro@ropesgray.com](mailto:matthew.shapiro@ropesgray.com)

+1 212 596 9427