

UNIFIED PATENT COURT

Opt-Out Strategic Considerations

As discussed in our *Overview of the Unified Patent Court* publication, the UPC and Unitary Patent (UP) system launched on June 1, 2023 and has already begun to reshape European patent law, with jurisdiction over revocation and enforcement actions across 18 EU member states, including some of the largest patent forums like Germany and France.

A. What is the UPC’s “opt out” procedure?

The court is currently in a seven-year transitional period that is scheduled to end in 2030, but may be extended for an additional seven years to let the new and old European systems settle. At the time of the UPC’s launch, more than 400,000 patents had been opted-out, and that number has risen to over 500,000 in the court’s inaugural year. While the total number of opted out patents has grown, the rate at which patent owners have opted out patents has decreased, suggesting an increased confidence in the court. Moreover, the rate at which new European patents are issued as UPs continues to increase, reaching about 24% of all issued European patents at the end of the first year.

The fundamental choice of whether to subject patents to the UPC’s jurisdiction or remain on the sidelines presents a number of strategic considerations for patent owners, patent challengers, applicants and licensees alike. Below we address some of these considerations.

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 that has not been opted out of a UP (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 and the patent owner will have lost its ability to opt the patent out of future UPC proceedings. Thus, a patent owner may face a substantial risk of “central revocation” for any patents that remain within the UPC’s jurisdiction.

However, if a patent is initially opted out (and thus not subject to a single UPC action), the patent owner has just one opportunity to withdraw the opt-out to bring the patent back into 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 chance to reevaluate whether to proceed before the UPC or national courts after considering the UPC’s precedent on relevant issues.

Applying an opt-out strategy has its own risks, however. If a patent challenger files an action against an opted-out patent in a national court, or if the patent was previously asserted in a national court (even if the action was initiated prior to the UPC’s existence), the patent owner will no longer be able to withdraw its opt-out, regardless of whether the national court action is later terminated. 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 weigh: the patent’s value; 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 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.

Indeed, at least one patent challenger succeeded (over the patent owner’s objection) in subjecting a partially opted out patent to a central revocation proceeding where the opt-out was correctly filed by the owner of each national part of

the EP, except in Germany, where the German part was owned by a different entity. Because the partial owner of the German part did not file an opt-out, the opt-out of the entire EP was ineffective and able to be challenged at the UPC.

B. 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, including in any situations where fewer than all patent owners opted the patent out. 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 or may not have filed a proper opt-out.

Along with EPO opposition proceedings, a UPC central revocation action provides an efficient mechanism for 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 a central division (currently Munich and Paris, and Milan).

If a patent has already been opted out, then litigation must take place in individual national courts. But, the patent owner can withdraw the opt-out so long as a national litigation has not been filed. A potential 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. While this strategy has not yet been implemented, future patent challengers may identify national jurisdictions with low filing fees and a minimal risk of cost reimbursements by the losing party as a means to preclude patent owners from filing a UPC infringement action in the future.

C. What should patent applicants consider?

Applicants should weigh the benefits of a UP, including broader protection and decreased costs, against a traditional EP. Critically, a granted UP does not include protection in the large economies of the United Kingdom and Spain. In fact, excluding Germany, France and Italy, the remaining 15 UPC-participating states collectively have a population that is not much larger than the U.K.'s. Applicants should therefore consider whether to rely upon the streamlined UP process or 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 others 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 U.K. 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.

D. What should patent licensees consider?

Licensees may be in a difficult position because the decision to opt out of UPC jurisdiction rests with patent owners rather than licensees, and most license agreements are unlikely to address the opt-out decision-making process.

For example, a patent owner seeking to minimize costs may seek UP 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 any patents and immediately raise any such concerns with the licensor.

E. Conclusion

UPC strategies must be continually reevaluated based on the latest precedent. Ropes & Gray, in collaboration with our top-tier European partner firms, is on the cutting edge of this new patent forum and stands ready to advise on all UPC and UP matters.

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