

Patent owners should not fear the Unified Patent Court

12-01-2016

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Fears over the Unified Patent Court, which have apparently led some practitioners to recommend opting out of the system whenever possible, are largely unfounded, suggests John Pegram of Fish & Richardson.

Fears of the unknown, such as qualms about the quality of Unified Patent Court (UPC) judges, the new court's procedures and the substantive law it will apply, have contributed to a worry that a central attack might unreasonably lead to revocation by the UPC of a European patent in all participating states.

Realistically, however, those fears are unlikely to prove justified for most litigated patents, and automatically opting out of the UPC for all of an owner's European patents is probably not a wise choice. Rather, a patent owner should consider the relevant factors as applied to each of the patents in its portfolio.

The UPC Agreement, a treaty among almost all EU member states, will create a single court for patent litigation in participating states, probably starting in early 2017. The UPC is intended to have exclusive competence in the participating states for all litigation involving infringement or revocation of European patents, including those issued before the court opens. Most significantly, the UPC can enforce a European patent in one action for all participating states and the final oral hearing is ordinarily expected to be within one year of filing.

At the first instance (trial) level, the UPC will have a central division, regional divisions of several cooperating states, and one or more local divisions in states with significant amounts of patent litigation. The central division will have three parts, each assigned to handle certain technologies. The headquarters will be in Paris, with other central division parts in London and Munich. The UPC will also have a single appellate level, based in Luxembourg.

The transitional opt-out

During a transitional period of at least seven years, article 83 of the UPC Agreement permits patent actions based on conventional European patents to be filed either in the UPC or in national courts. During that period patent owners may opt out of the UPC's competence with respect to a conventional European patent. They will not be permitted to enforce the new European patent with unitary effect (the unitary patent) in national courts or to opt out from the UPC with respect to a unitary patent.

The opt-out will be registered with the UPC by an online procedure and payment of a fee, currently expected to be €80 (\$87) for each European patent. It also will be possible to withdraw an opt-out, ie, to opt in to the UPC again. There will be no fee to opt in again.

An opt-out is superficially attractive, because it apparently provides patent owners with a choice of litigating in the UPC or national courts. That choice is somewhat illusory, however, because third parties have an unrestricted right to initiate an action for revocation or declaration of non-infringement in the court of their choice, and the place of first filing limits the choice for later-filed actions involving the same European patent. Unlike declaratory judgment actions in the US, there is usually no prerequisite requirement in the European Patent Convention (EPC) or national courts for a threat by the patent owner.

Opting out could lead to a worse result than a central attack on a patent in the UPC, because a party desiring to attack an opted-out European patent probably would choose the court that is least attractive for the patent owner. Any national court action filed during an opt-out would prevent enforcement of that European patent in the UPC against any defendant, because the patent owner can no longer withdraw its opt-out when an action has already been brought before a national court. It appears likely that a patent owner would have more ability to sue in the UPC after a national revocation action is filed if it has not opted out. (Details of the laws governing competence of the UPC and national courts during the transitional period, some of which are unclear, are beyond the scope of this article.)

Analogous experiences

The fear of central attack is a counterpart to similar fears that were expressed about the European patent and trademark systems when they were being established. It was said that few IP right owners would use either of those systems because of the risk of central attack. Yet, both those systems quickly became a major success. The advantages of obtaining broad protection at a reasonable cost and the establishment of a high-quality system in each case quickly overcame the fears of most IP right owners. The same result appears likely in the case of the UPC.

Experience in the US also points to the success of the UPC. Approximately 26% of European patent applications in 2015 were from the US. That statistic suggests that the behaviour of the owners of US-origin European patents will have a significant influence on the success of the UPC and unitary patent.

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Americans are accustomed to grants of federal IP rights for all 50 states and enforcement by litigation in a single federal court. We have lived for many years with the possibility of attack on patent validity in a single court. US IP managers are also accustomed to a variety of local court procedures and many different judges, most of whom are less experienced in patent law than those in major European states.

US owners of European patents are also likely to favour the UPC because English is much more likely to be the language of the case in the UPC than in national courts other than in the UK and Ireland. This author suggests, therefore, that—subject to cost factors—US companies are likely to embrace the UPC and the unitary patent.

High-quality judges

It is not surprising that the UPC is attracting high-quality judicial candidates. At least in the beginning, many UPC judges will work part time in that court and the rest of the time in their national patent court or—especially in the case of technical judges—as private practitioners. Joining the UPC offers the opportunity to participate in some of the fundamental decisions of that court.

A UPC judicial position is likely to be prestigious and the pay is likely to be good compared with that in most national courts. Safeguards have been built into the UPC Agreement so that it is very unlikely that a party could be trapped in a regional or local division dominated by inexperienced judges. For example, declaratory actions for revocation or declaration of noninfringement can be filed only in the central division. Although counterclaims for revocation or declaration of non-infringement can be filed in the other divisions, the patent owner will have chosen the division, and various safeguards for fair adjudication of validity issues are provided by article 33 of the agreement.

Well-considered procedures

The procedural rules of the UPC are nearly complete after an extensive consultation process and 18 drafts. They have been written and reviewed by experienced judges and lawyers, which is likely to create a rational system.

Probably the biggest fear among IP right owners regarding UPC procedures was the possibility of bifurcation and an injunction being granted in an infringement action before a decision on validity in a revocation proceeding, as is possible in Germany. In particular, some feared that German judges would be inclined to bifurcate the issues of validity and infringement, because patent litigation is always bifurcated that way in Germany.

More than one German judge, however, has pointed out that those issues are bifurcated in Germany because the law requires it, by placing competence for revocation in the Federal Patent Court and competence for deciding infringement cases in district courts. German judges have told the author that they see advantages in deciding validity and infringement issues in the same case, and they would rarely bifurcate those issues in the UPC. Article 33 of the agreement and latest versions of the rules appear to provide adequate steps to minimise the risks of an early injunction following bifurcation.

Substantive law

The differences between the substantive patent law that will be applied in the UPC and national courts are not large, especially with respect to issues of validity. The primary sources specified in article 24 of the agreement are the EPC and other international agreements applicable to patents that are binding on all the contracting member states. Such differences

relate primarily to infringement and remedies, such as grant of permanent injunction being at the discretion of the court in the UPC, the conditions for the grant of provisional injunctions, the scope of exemptions for research purposes and computer programs, and different approaches to competition law defences.

Therefore, differences in substantive law between the UPC and national courts are unlikely to have a major effect on the substantive law applied in revocation actions. Indeed, those differences from existing national laws appear to be smaller, in this author's opinion, than existed in patent and trademark law before the establishment of the European Patent Office and the Office for Harmonization in the Internal Market, respectively.

Fears over the UPC do not appear to justify universally opting out of that court and there will be advantages to not opting out. Therefore, the possibility of opt-out should be studied for individual situations. Indeed, this author believes many European patent owners will find that they would prefer the ability to avoid national courts, which will be possible only during the transitional period for a unitary patent.

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