

DISCUSSING THE TRENDS

Q&A with Charles Courtenay, Christian Engelhardt and Donald McCombie

Preparing for the Roll Out of the European Patent Reforms

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In this interview, Latham & Watkins counsels Charles Courtenay and Christian Engelhardt and associate Donald McCombie discuss the impact of the new Unified Patent Court (UPC) on existing European Patents and outline how companies should prepare for the upcoming introduction of the EU Unitary Patent and UPC.

The European patent system is due to be reformed significantly in the coming years. What does the reform package consist of?

Courtenay: There are two main elements: 1.) the EU Unitary Patent and 2.) the Unified Patent Court.

1.) Unitary Patent

Engelhardt: So-called 'European Patents' have been available since the 1970s. These are examined centrally by the European Patent Office (EPO). However, once issued, a European Patent effectively becomes a 'bundle' of national patent rights, which must be maintained separately in each European Patent Convention (EPC) contracting state. The EPO is not a European Union (EU) body, and several non-EU states are signatories to the EPC.

By contrast, the new Unitary Patent right will be a single, unitary patent right that may be enforced and revoked as a single right across all EU member states except Spain and Italy (which are not currently participating), and will be governed by an EU Regulation. The EPO will examine and issue Unitary Patents in largely the same way as existing, 'classical' European Patents.

Unlike classical European Patents, national EU Member State courts will have no jurisdiction over Unitary Patents. Instead, Unitary Patents will be subject to the exclusive jurisdiction of the new Unified Patent Court (UPC). No Unitary Patents will be granted unless and until the UPC is established. After the UPC has come into operation, applicants for patents at the EPO will be able to choose for their application to become either a 'classical' European Patent or a Unitary Patent upon grant at the patentee's request, and the EPO will continue to examine both types of application.

The UPC may open for business as early as Q1 2016 (although delays are likely), and it is not yet possible to apply for Unitary Patents.

2.) Unified Patent Court

McCombie: Under the current system, existing 'classical' European Patents must be enforced on a country-by-country basis in the national courts of EU Member States. For example, if a patent is infringed in Germany, the UK and France, three separate infringement actions must be commenced in the courts of those three member states in order to obtain an injunction to stop the infringement and/or to recover damages in respect of past infringement in each jurisdiction.

Courtenay: The current European system is analogous to requiring US patentees to bring proceedings separately in California, Texas and New York, but this is due to change.

Engelhardt: The UPC will allow patentees to obtain a single infringement decision binding across substantially the entire EU¹, providing for remedies including pan-European injunctions and damages for roughly 85 percent of the EU single market. At present, the cost of litigating in many European markets individually is disproportionate to the benefit of doing so. The UPC is likely to change the economics of patent litigation in Europe dramatically, providing a cost-effective way for patentees to take a uniform approach to the EU as a whole.

McCombie: The UPC will consist of a number of national, regional and central 'divisions':

- Each contracting Member State will be entitled to host at least one **national** division. If a Member State is able to demonstrate sufficiently high case loads, it may apply for additional local divisions, up to a maximum of four.
- Groups of Member States may alternatively choose to join together to host a **regional** division, instead of separate national divisions. So far, only one regional division has been confirmed — the Nordic-Baltic division comprising Sweden, Estonia, Latvia and Lithuania.
- Finally the central division will be split three ways among Munich, Paris and London, with cases allocated based on the subject matter of the patent(s) in suit. Cases involving life sciences, chemistry and metallurgy patents will be allocated to London; cases involving mechanical engineering, lighting, heating, weapons and blasting will be allocated to Munich; and cases involving all other technical fields, including electrical engineering, telecoms, computing and IT, will be allocated to Paris.

The rules regarding the competence of the various divisions, and the allocation of cases between divisions, are complicated. The most important distinction is that local and regional divisions will have competence to hear infringement claims and revocation counterclaims, but standalone revocation actions may only be brought in the central division.

The existing national court procedures vary significantly among European countries — how will the UPC compare with these systems?

Courtenay: At present, substantive patent laws for both infringement and validity are relatively well-harmonized across the EU. However, while US practitioners and clients will be familiar with a degree of procedural inconsistency among US District Courts, patent litigation procedure varies dramatically among EU Member States, and these procedural differences have a significant effect on the cost, the timing and the outcome of EU patent litigation.

Englehardt: For example, the German patent litigation system requires infringement and validity claims to be heard separately, by different courts — the so-called 'bifurcated' system. Infringement actions are first heard in the Regional Courts, then appealed to the Higher Regional Courts. Validity actions are commenced in the Federal Patent Court. Only at the final level of appeal to the Federal Supreme Court does a single court consider both infringement and validity, but even then they are considered separately. The infringement courts are generally much faster than the validity court.

McCombie: By contrast, in all parts of the UK the courts may hear both infringement and validity issues together, at first instance and on appeal. It is very common for parties to rely on so-called validity/infringement 'squeeze' arguments to prevent patentees from relying on overly broad constructions of the scope of the patent claims by countering with invalidity arguments.

Englehardt: German proceedings are largely paper based. Parties must provide detailed written submissions setting out all of their arguments and reasoning at an early stage of proceedings, and the scope for live witness evidence and cross-examination of experts is limited. German patent trials are always less than a day in duration, and in many cases will only be a few hours long.

McCombie: In England, High Court proceedings place a greater emphasis on the trial. The written pleadings are very short in comparison with German litigation briefs, and in many cases details of the parties' legal arguments and submissions on matters such as claim construction will not be exchanged until three days before the final trial hearing. Expert witnesses appointed by the parties are central to the English litigation process. Extensive cross-examination of party experts will generally take place at trial, with trial hearings generally lasting between four days and three weeks.

How will the UPC compare to the current national litigation systems?

Englehardt: The UPC is similar to the German system in many ways. Parties will need to submit detailed written pleadings, and first instance cases will be heard by panels of three judges, as in Germany. The UPC Agreement preserves the possibility of 'bifurcating' the infringement and validity elements of a case, although this will be optional under the UPC, rather than compulsory as in the German system. The UPC rules of procedure have yet to be finalized. Although there is still time for further amendments to various aspects of court procedure, as we are currently on the 17th draft of the rules, dramatic changes are unlikely at this stage.

McCombie: Whilst the UPC Agreement, and many of the procedural rules, appear to be modelled on the German system, the UPC will take many elements from other European jurisdictions. For example, the *saisie contrefaçon*, a means of gathering evidence under French law, has been incorporated into the procedural rules. Disclosure will also be available under the UPC rules, as in the UK. Further, although trial hearings are intended to last a single day or less, witness evidence may be heard separately, allowing for cross-examination of experts, as in the UK.

Existing European Patents will automatically be covered by the UPC — what does this mean for clients?

McCombie: For the first seven years of the UPC's operation, proceedings involving classical European Patents may be brought in either the national courts or in the UPC. For Unitary Patents, only the UPC will have competence. After the initial seven-year transitional period (which may be extended for a further seven years), the UPC will have exclusive jurisdiction over both European Patents and Unitary Patents.

Holders of classical European Patents may also 'opt out' of the jurisdiction of the UPC entirely by filing an application and paying the opt-out fee, which has yet to be set. Once a patent is opted out, it may be opted back in to the jurisdiction of the UPC in future, although if proceedings are brought in the national courts while the patent is opted-out, the patentee will be barred from opting back into the UPC. Patentees cannot selectively choose to opt out only in some Member States whilst keeping other national designations of that same European Patent within the UPC; a patent must be opted out in its entirety.

Although participating in the UPC allows patentees to assert their patents against infringers across the EU, it also raises the risk of central revocation of European Patents. This has previously only been possible in EPO Opposition proceedings, which may only be brought within nine months of grant of the patent. By contrast, patents may be revoked by the UPC at any time after grant. For some patentees, the potential benefits of the UPC may not justify the risk of central revocation, at least in the early years when the system is untested.

What can be done now to prepare?

Courtenay: Patentees will need to consider their opt-out strategy before the new system's introduction. Each patentee's approach will be influenced by their own budget, industry sector, attitude to litigation and appetite for risk.

Englehardt: If resources allow, patentees should consider auditing their portfolios to identify rights that are key to their businesses. For practicing entities, this may involve assessing which patents cover key products, and which European markets are most important. Such companies may consider opting some patents out of the UPC, which may then be asserted in key markets whilst avoiding the risk of central revocation, while keeping other patents within the UPC system to permit a central infringement action being brought covering most of the EU market. Divisional patents are treated as completely separate patents for opt-out purposes, and it will be possible to opt a parent application out, whilst keeping a divisional within the UPC. Strategies will vary among industrial sectors. For example, pharmaceutical companies may be more inclined to opt-out than patentees in other fields, as key products are often covered by a small number of very high value patents, which proprietors may not want to expose to the risk of central revocation.

For non-practicing entities (NPEs), the benefits of the UPC are more likely to outweigh the potential risks, although NPEs may still wish to retain a mix of patents opted-out and opted-in, so as to preserve the possibility of bringing national proceedings before, say, the German courts without the threat of central revocation within a relatively short time frame.

McCombie: The current draft of the procedural rules requires that, where a patent or application is owned by two or more proprietors, all proprietors must lodge the application. As such, if ownership of the national designations of European Patents is currently split among separate European group companies, each owner will have to cooperate in order to file the opt-out. Where ownership is split among separate, arms-length companies the process of reaching agreement may take some time.

Additionally, most existing license agreements will be silent as to the preferred opt-out strategy. This may require licences to be renegotiated, particularly exclusive licences, and the merits of any particular opt-out strategy may not benefit the licensor and licensee equally, and enforcement provisions may also need to be re-assessed. As the UPC may come into operation as early as Q1 2016, companies should begin to consider these issues now, as a delay in exercising the opt-out may otherwise permit the filing of a central revocation action as soon as the UPC opens for business.

1 Spain and Poland have not signed the Unified Patent Court Agreement

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