



The Future European Patent System: Being Prepared

The new European patent system is well on the way to being implemented. Towards the end of 2014, Advocate General Bot issued his opinion that the Court of Justice of the European Union (CJEU) should dismiss the challenge brought against the system by Spain; the 17th and almost final draft of the rules of the procedure of the new EU Unified Patent Court was published; and an open consultation hearing was held in Trier, Germany to discuss a small number of outstanding issues concerning those rules. It is clear that the new European patent system is going forward, likely in 2016 or 2017. It is a seismic change to the European patent litigation system which will impact global patent enforcement strategy. Parties should start to prepare themselves and think about important strategic decisions now.



THE NEW SYSTEM IN BRIEF

The changes on the horizon arise from dissatisfaction with the existing fragmented nature of the European patent system (made up of European patents - which are a bundle of patents with independent lives in each designated state upon grant - and national patents). Currently, it is generally necessary to enforce (or revoke) patents separately in each European jurisdiction. This is not cost-effective and can lead to inconsistencies. There are two major aspects to the changes:

- The creation of a new European patent with unitary effect (“unitary patent”)
- A new EU Unified Patent Court (“UPC”)

The Unitary Patent

It will be possible within a month of a European Patent being granted to designate it as having “unitary effect”. That is to say, it will have effect as a single patent across all EU Member States that have ratified the Unified Patent Court Agreement by the time that the patent is granted. Eventually, this will encompass at least 25 EU Member States (not Spain, Italy or, currently, Croatia). There will, therefore, be three routes to European patent protection:

- National;
- The existing European patent (designating up to 38 European Patent Convention countries); and
- The new unitary patent.

After the transitional period (six to twelve years, during which it is hoped that machine translations will become more reliable), there will be no need to translate a unitary patent before litigation, other than to ensure that the claims are in English, French and German. In the event of litigation, a translation into the relevant language can be requested by an opposing party or the court. During the transitional period a translation will be required either into English or, if the patent is already in English, another official EU language.

The potential advantage of the unitary patent is the possibility of securing patent protection in Member States without the need to incur the costs of translations or to pay renewal fees in each of those states. The extent to which it is adopted by users currently designating a limited number of states will doubtless depend on the level of the renewal fees, which is currently unknown.

The Unified Patent Court

Jurisdiction

This will be a single court having jurisdiction in all EU Member States that have ratified the Agreement (ultimately 25). As things stand, that will eventually amount to all EU Member States apart from Spain (which has challenged the system in the CJEU), Poland (which is reserving its position) and Croatia (a new entrant to the EU). Italy is included, although it has not adopted the unitary patent.

The Court will hear proceedings involving (a) the new unitary patent (b) classic European Patents and (c) Supplementary Protection Certificates (a form of patent extension) associated with those patents. It will not have jurisdiction over national patents. It will deal with infringement proceedings (and so will grant pan-European injunctions), declaration of non-infringement proceedings (and so will grant pan-European declarations) and revocations (and therefore will revoke a unitary patent and all designations of a European patent within its jurisdiction). It is, therefore, a court with unprecedented powers that will have jurisdiction in states with a combined population of about 500 million people.

From the very start, the UPC jurisdiction over unitary patents will be exclusive, so national courts will not have jurisdiction over them. Eventually, the UPC will also have exclusive jurisdiction over European patents. However, during the transitional period of seven years (extendable by a further seven years), the jurisdiction will be non-exclusive. That is to say, proceedings will be able to be brought in either the UPC or national courts, provided proceedings have not already been brought in the UPC. This is subject to the European patents not being “opted out”, which is discussed further below.

The Structure of the Court

The court will be made up of a Court of First Instance and a Court of Appeal (based in Luxembourg). The Court of First Instance will, in turn, be divided into local divisions (and regional divisions) and a central division. A political compromise was reached whereby every Member State can host a local division of the Court of First Instance, if it chooses to do so - for example, the UK, Germany, the Netherlands, France, Italy, Austria, Ireland, Denmark and Belgium have chosen so far to host a local division. Lithuania, Latvia, Estonia



and Sweden have clubbed together to form a regional division. To ensure consistency of standards wherever a local division may be, the court will generally sit in multinational panels of three judges (and, in some instances, an additional technical judge). The UK, France, Germany and the Netherlands, which have had at least fifty cases per year in three successive years, will be entitled to have two of their nationals sitting in their local divisions and so too will any regional division, while the other local divisions will only have one national judge. It will also be possible for the parties to agree to have their case heard by a single judge.

The location of the central division was also a political compromise. In the event, it was split between London (pharmaceuticals, biotechnology, chemistry), Munich (mechanical engineering) and Paris (electronics, physics and various others). Generally, it will sit in panels of two legally qualified judges (of different nationalities) and one technical judge, although again it will be possible for parties to agree to have their case heard by a single judge.

The local divisions are likely to hear most of the infringement actions, although it is possible for such actions to be heard in the central division in some circumstances. The central division will also deal with stand-alone revocation actions and claims for declarations of non-infringement, unless an infringement action is pending in a local division in which case the declaration or revocation actions must be brought in that division. Also, if an infringement action is subsequently brought in a local division (within three months in the case of a declaration of non-infringement action pending in the central division), the central division action will be stayed. The stay is permanent in the case of declarations of non-infringement. In the case of revocation claims, the local division will decide whether to have the infringement and invalidity claims heard together or to separate them (“bifurcation”, discussed further below).

Generally speaking, the language of the proceedings in a local division will be the official language or one of the official languages of the Member State, or one or more of the EPO languages, if any have been designated by the Member State. Many Member States have designated English in addition to their official language(s). The rules are still not finalized where more than one language applies and, in fact, that was one of the more hotly contested issues raised at the oral consultation

hearing about the 17th draft procedural rules in Trier in November 2014. The language of proceedings in the central division will be that of the patent.

Which Division?

The New Forum Shopping

There are detailed rules as to which division proceedings are to be brought in, as between the various local divisions and the central division. One rule is that proceedings can be brought in any local or regional division in which there is infringement. It is clear that there will in many instances be a wide choice and, therefore, a lot of forum shopping. There is already much forum shopping in Europe and this is not going to go away, however the rules for choosing a jurisdiction and the basis of that choice will change.

Possible factors informing the choice of jurisdiction will be (a) the experience of the jurisdiction; (b) the approach to the law taken by a division (and perceptions as to whether it is pro-patentee or not); (c) the language of the division; (d) the speed of proceedings in the division; and (e) the approach to procedure taken by the division, including bifurcation, discussed below. The procedure is going to be a hybrid between UK/US common law proceedings and continental civil law proceedings. Unlike in common law systems, civil law jurisdictions have no discovery, no cross-examination of witnesses (fact or expert) and a limited oral hearing. Under the new UPC procedure there will be an emphasis on written briefs, and a one-day oral hearing for advocacy with a possibility of a maximum one-day hearing for cross-examining witnesses, including expert witnesses. There will also be provision for some discovery and experiments. Some jurisdictions may be more inclined to make orders for discovery or cross-examination than others, particularly if the jurisdictions in which the local divisions are based are familiar with those procedures. However, this is speculation and, in any event, in time one might expect to see a level of harmonization between the divisions.

Bifurcation

Another important procedural aspect that may have a bearing on forum shopping is the possibility of so-called “bifurcation”. This describes the process whereby validity proceedings are separated from infringement proceedings. It is the procedure



used in Germany and, as a consequence, it has been made possible in the UPC, although it is for the court to decide whether to do so in any particular case. Therefore, when a counterclaim for revocation is brought in infringement proceedings, the court will have a choice as to whether to (i) hear both the infringement case and the revocation counterclaim, (ii) send both claims to the central division or (iii) just send the revocation counterclaim to the central division (bifurcation). As discussed above, a similar situation arises if an infringement claim is brought in a local division after a revocation claim has been commenced in the central division.

From a UK or US perspective, bifurcation can appear to lead to injustice. In particular, there is less pressure on a patentee arising from infringement-validity “squeezes”, which prevent a patentee from arguing for too broad a claim construction to cover an alleged infringing product. Furthermore, in Germany, because infringement proceedings tend to be heard before invalidity proceedings, it is possible to get a favourable result (and an injunction) before the validity of the patent has been determined. Although the proceedings are subject to appeal, in reality many cases are resolved at an earlier stage once an injunction has been granted. In order to deal with these issues in the UPC system, a number of procedural safeguards have been put in place in the event that bifurcation is ordered, including power to stay infringement proceedings pending the revocation proceedings and the ability to make any judgment and orders conditional upon validity. In addition, proceedings must be stayed if there is a high likelihood of invalidity. Most recently, in the 17th draft of the procedural rules, provision was made requiring the central division to accelerate the invalidity proceedings if the infringement proceedings have not been stayed and to endeavour to set a date for the invalidity oral hearing before that of the infringement proceedings.

TRANSITIONAL PERIOD AND OPT-OUT

The UPC will have unprecedented power as it will be able to grant pan-European injunctions, and will be able to order pan-European revocations. However, it is going to be a completely untested and untried court, with a completely new procedure. Moreover, its implementation has been somewhat rushed. As a consequence, stakeholders have been reticent about entrusting their patents to this new court and parties

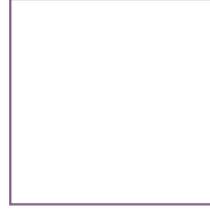
are well advised to consider their strategy carefully in the lead-up to the introduction of the Court, and in view of the transitional provisions.

In particular, while it is not possible to opt out unitary patents from the UPC jurisdiction, up to one month before the end of the transitional period it will be possible to opt out “classic” European patents (that is to say, those without unitary effect). This would shelter them from being revoked by the UPC across all designations. On the other hand, if a European patent is opted out, it will not be possible to obtain a pan-European injunction across all designated states. If a patent has been opted out it can be opted back in again (once), unless national proceedings have been brought in the meantime. Similarly, if proceedings in the UPC have been brought against a patent which has not been opted out, it cannot thereafter ever be opted out.

The decision as to whether to opt out patents or leave them in, and also whether to seek a unitary patent designation upon grant (which cannot be opted out), is one that should be made carefully. Consideration should be given in good time before the UPC comes into effect in 2016 or 2017, although in some cases the strategy may depend upon the level of the opt-out fee and also the level of fees of the unitary patent, which are presently unknown. There will be a sunrise period for applications to opt out some time beforehand, so parties need to start formulating their strategy now.

THE LATEST NEWS

On November 18, 2014 the CJEU’s Advocate General Bot issued an opinion dismissing the Spanish challenge against the new European patent system. Spain is objecting to the system on the basis that it is discriminated against because Spanish is not a language that is prioritized in the system (as opposed to English, French and German). Also, it has made technical arguments about the way in which the unitary patent has been set up, with certain aspects being outside of the EU framework, namely leaving certain matters to the EPO (a non-EU body) and the national law of Member States. The objections were dismissed by the Advocate General. As regards the language regime, his opinion was that, while those in Spain who do not speak English, French or German will be discriminated against, in light of the benefits of the single system (including the



reduced translation cost), it is proportionate to do so. Also, he noted that English, French and German are already the main languages of the EPO. A pragmatic approach was also taken by the Advocate General in relation to the technical arguments about how the unitary patent has been set up. It seems likely that the CJEU will follow this opinion and reject the Spanish challenge, given the overwhelmingly positive reasons for making a single EU patent system work.

On October 31, 2014 the 17th draft of the procedure rules was published, followed on November 26, 2014 by an open oral consultation meeting in Trier, Germany. The latest rule changes have clarified a number of issues, including by providing for the acceleration of revocation proceedings in the event of bifurcation, discussed above. One area of some continuing controversy that was discussed at the open hearing in Trier is the extent to which injunctions are discretionary. The latest rules emphasize that they are; however, there is debate about whether the rules should be more prescriptive in setting out how the discretion should be exercised or whether it should just be left to the court to develop law and exercise the discretion. The technology sector is particularly interested in this aspect, due to experiences with non-practising entities in the United States. There is a fear that the availability of pan-European relief (and possibly more limited costs recovery) may encourage NPE litigation which to date has been relatively limited in Europe.

Another area of interest debated in Trier relates to the language regime. As stated, the language of proceedings in the local division can be the official EU language (or languages) of its Member State. In addition, a Member State can designate any or all of the EPO languages (i.e. English, French or German). The general rule, where more than one language is designated, is that the claimant (plaintiff) can choose which language should be the language of the proceedings (except where a local

division was selected due to it being in the Member State of the domicile or principal place of business of the defendant and the proceedings cannot be brought in any other local division based on where the infringement took place). However, an additional draft rule provides that, irrespective of the language chosen by the claimant, parties may use in certain parts of the proceedings (including the pleadings, evidence and the oral hearing) any EPO language (or any one of them) designated by the Member State. Germany is keen to avail itself of this, as it has designated English as one of its languages in addition to German. This is to encourage English speakers to use the German local divisions. There is some controversy over this rule because it may mean some parts of the proceedings being conducted in German and others in English. This may also be an early sign of competition between local divisions.

FUTURE INTERNATIONAL PATENT LITIGATION

We believe that the UPC will, in the course of time, and after a possibly extended teething period, become a hugely significant forum in which patents are litigated. With the UPC having a jurisdiction with almost 500 million people, it seems likely that patent disputes will routinely be litigated in both the United States and the EU. It will be necessary for that litigation to be completely coordinated to ensure a consistency of approach, preferably handled by a single team. For that reason, WilmerHale is **expanding its IP litigation practice** in Europe and has recently hired UK patent litigation practitioners **Trevor Cook** and **Anthony Trenton**.

This note is a brief summary. We are happy to discuss further details of the forthcoming changes in Europe and strategies for preparing for these major changes, including in relation to opting out European patents.

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