



The Future European Patent System: Update on the Latest News

Following our note [“The Future European Patent System: Being Prepared,”](#) we report here on the very latest news on the implementation of the major changes to the European patent system. In recent weeks, there has been important news relating to the dismissal of Spain’s challenge in the Court of Justice of the European Union, which was the final legal hurdle to the system, and also as to the proposed level of fees in the new system—namely those for litigation in the Unified Patent Court (including the opt-out fee) and for renewing a Unitary Patent, both of which will influence how the system is used.



THE FINAL LEGAL HURDLE HAS NOW BEEN CLEARED

On 5 May 2015, the Court of Justice of the European Union (CJEU), as was generally expected, disposed of the objections taken by Spain to the creation of European unitary patent protection. Spain had raised, in two actions, a large number of discrete objections to the legality of the system. These included criticism of European Patent Office (EPO) procedures and the incorporation of those procedures into EU law, the delegation of EU powers to the EPO and Member States, and the adoption of a language regime that discriminates against Spanish, in favour of English, German and French. The CJEU summarily dismissed each of the objections. With regard to the language objection, it acknowledged that the regime discriminates between languages, however it took the view that the benefits of the new system outweigh the disadvantages. The potential benefits of the new system were evidently uppermost in the court's mind and determined the way in which the court addressed each of Spain's objections. There are now no more legal hurdles to implementation. The destiny of what is a political project is now again in the hands of the Member States, as the UPC Agreement awaits ratification.

RATIFICATION: SIX DOWN, SEVEN TO GO

The new system (the Unified Patent Court and the Unitary Patent) will come into effect four months after the UK, France and Germany, and at least 10 other Member States, have ratified the UPC Agreement. So far, France, Austria, Belgium, Denmark, Malta and Sweden have ratified and deposited the ratification instruments with the EU Council, with Luxembourg having ratified (but not yet having deposited), and Portugal and the Netherlands not far behind. The UK and Germany, however, are approaching this slowly, with the UK taking the position that it will not complete the ratification process until the Unified Patent Court (UPC) is ready. Much remains to be done, including the training of judges (underway, with judges having completed the first two modules at the UPC training center in Budapest), procurement of IT systems, and the selection of court buildings. Because of this, 2017 is now looking more realistic than 2016 as the likely year in which it will commence.

ITALY

Italy has previously taken the position that, although it would participate in the Unified Patent Court, it would not take part in the Unitary Patent. Following the rejection by the CJEU of Spain's legal challenge, it has indicated a change of heart. It is now expected that Italy will play a full part in both.

IMPORTANT NEWS ON FEES

One area of uncertainty has been the level of fees in the new system. We now have some indication as to the likely levels. While at first sight these may seem like a detail of limited interest, they are important from a practical standpoint, because they will influence how parties use the new court and the extent to which the Unitary Patent is adopted.

Unified Patent Court Fees

On 8 May 2015, the Preparatory Committee of the Unified Patent Court released a consultation document containing various proposals regarding UPC fees.

The Opt-Out Fee

The level of the opt-out fee has been the subject of speculation, because it will be a factor in determining the extent to which "classical" European bundle patents in patent portfolios are opted out of the UPC. The proposed fee is €80. This is not negligible, but neither is it at a high, deterrent level as had been feared. The Preparatory Committee has stated that the level of the fee has been set so as to recoup administrative costs. Nonetheless, in the case of very large portfolios, the level may be high enough to deter patent owners from opting out all of their European patents.

Court Filing Fees

Another area of uncertainty has been the level of court fees for issuing proceedings in the UPC. The UPC is to be self-financing after seven years and, accordingly, it was inevitable that fees would be relatively high, at least in comparison with, for example, those in the English Patents Court.



For infringement actions (and counterclaims for infringement), declarations of non-infringement and certain other actions, the fee will be made up of two components: a fixed fee (proposed to be €11,000 in the case of infringement claims) and a “value-based fee.” The value of a case will reflect “the objective interest” of the party filing the action, as determined by the court. The value-based fee, as proposed, ranges from nothing (for cases valued at €500,000 and below) to a maximum of €220,000 (for cases valued above €30,000,000). In the case of an invalidity/revocation action, the fee is proposed to be fixed at €20,000 with no value-based component. If it is part of a counterclaim, then it will be at the same level as the infringement claim fee, but capped at €20,000.

It is unclear whether the fees are proposed to be per patent, or per action irrespective of the number of patents. If they are per action, it may encourage parties to avoid paying fees they would otherwise have to pay, by bringing several cases in one action. The court may be able to deal with that, however, by assessing the action as being of a commensurately higher value (if it is, for example, an infringement case with a value-based fee component) and so increasing the fee, or by splitting the cases. On the other hand, if the fee is per patent, that may lead to very high fees being paid. For example, a defendant in a multiple Standards Essential Patent action counterclaiming for revocation/invalidity may have to pay multiple amounts of the €20,000 fee.

The consultation document contains two alternative proposals for reducing the fees in particular situations. The first alternative would reimburse a proportion of the fees if (i) the case is agreed to be heard by a single judge rather than a panel of three (a 25% discount) or (ii) if the case is withdrawn or settled at particular stages (with 60%, 40% and 20% discounts proposed, depending on the stage). The second alternative would exempt SMEs, non-profit organizations, universities and public research organizations from paying the value-based component of the fees altogether. These alternatives are the subject of the consultation exercise.

As was inevitable, given the self-funding nature of the court, the fees are high in comparison with many other European courts, but not disproportionately so.

Cost Shifting—Recovery of Attorney Fees

While there is to be cost shifting in the UPC, it will be subject to a ceiling above which fees may not be recovered from an opposing party. There has been speculation as to the level of the ceiling. The consultation document proposes a sliding scale, depending on the value of the case determined by the court. The scale ranges from a recoverable-costs level of €50,000 for cases valued at €250,000 and below, to €3,000,000 for cases valued at more than €50,000,000. See the table below for details.

| Value of Action | Ceiling for Recoverable Costs of Representation Per Instance and Party |
|---------------------------------|--|
| Up to and including €250,000 | Up to €50,000 |
| Up to and including €500,000 | Up to €75,000 |
| Up to and including €1,000,000 | Up to €150,000 |
| Up to and including €2,000,000 | Up to €200,000 |
| Up to and including €4,000,000 | Up to €400,000 |
| Up to and including €8,000,000 | Up to €600,000 |
| Up to and including €16,000,000 | Up to €800,000 |
| Up to and including €30,000,000 | Up to €1,000,000 |
| Up to and including €50,000,000 | Up to €1,500,000 |
| More than €50,000,000 | Up to €3,000,000 |

In some cases, these levels may lead to less recovery of costs than would be available in certain national courts, for example, the English Patents Court. But they are not negligible and are in excess of what is recoverable in many other jurisdictions. They are stated as being a compromise. To date, cost shifting has partly accounted for fewer patent litigation cases being brought by Non-Practising Entities in Europe than, for example, in the United States. It is unclear whether the scale of recoverable costs is such that that deterrence will continue, particularly once pan-European injunctions become available.



Unitary Patent Renewal Fees

In March 2015, a memorandum from the President of the EPO to the EPO Select Committee of the Administrative Council, which contained proposals for renewal fees for the Unitary Patent, was leaked prior to being released for formal consultation. On 7 May 2015, a memorandum containing amended proposals was leaked. These proposals, therefore, are not yet official, but are an indication of what is being considered. Two possible alternatives are contained in the memoranda, and the Administrative Council of the EPO has been invited to decide in favor of one of them. The first (updated) possibility is that the renewal fees will, from Years 2 to 20 of a Unitary Patent, be equal to the total sum of the renewal fees payable in respect of the four most frequently designated contracting states (“TOP 4”), namely the UK, Germany, France and the Netherlands. The second proposal is that the renewal fees be equal to the total sum of the renewal fees payable in respect of the five most frequently designated contracting states (“TOP 5”), thereby adding Sweden, but with a 25% reduction for SMEs, natural persons, non-profit organizations, universities and public research organizations.

The level of such fees has disappointed many, particularly those who validate European patents in only two or three contracting states. Clearly, however, for those filing five or more, the proposed fee levels would be a “good deal,” giving protection in, ultimately, at least 25 Member States.

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 an update on the latest news. We are happy to discuss further details of the forthcoming changes in Europe and strategies for preparing for these major changes.

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