

The Future European Patent System: Update on the Latest News SPRING 2016

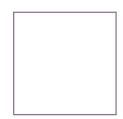
With the ninth Contracting State having ratified the EU Unified Patent Court Agreement, the commencement of the Unified Patent Court is approaching. We report on the latest news, including an announcement about opt-outs, and discuss the preparations that holders of European patents should be making now, if they have not already done so.











LATEST ESTIMATE: UPC TO COMMENCE IN SECOND QUARTER OF 2017

Nine countries have now ratified the Unified Patent Court Agreement, with Finland having ratified on 19 January 2016 (the others being Austria, Belgium, Denmark, France, Luxembourg, Malta, Portugal and Sweden). In addition to the required ratification by the UK and Germany, ratification by a further two countries is needed in order for the Unified Patent Court (UPC) to commence business, four months later.

The creation of the new court is a major logistical exercise, involving among many other things, the appointment and training of new judges, acquisition of court buildings and the commissioning of an IT system, and previous estimates have come and gone. The current estimate is that, subject to the UK deciding not to leave the EU following the referendum in June 2016 and there being no delays in ratification by Germany, the UPC will commence in the second quarter of 2017. The opt-out "sunrise period", discussed below, will start once 13 countries (including the UK and Germany) have ratified, estimated to be towards the end of the 2016.

NO FEE FOR OPTING OUT BUT HIGH ADMINISTRATIVE BURDEN

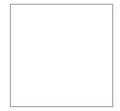
A key issue for holders of European patents has been whether or not to opt out their patents from the jurisdiction of the UPC. As reported previously, the UPC is a completely new court, with a completely new hybrid civil law-common law procedure, which will have jurisdiction to order the pan-European revocation of European patents, as well as pan-European injunctions and pan-European declarations of infringement. There has, therefore, been a degree of trepidation in light of the uncertainty that this presents. The possibility to opt out non-unitary European patents during the (initial) seven-year transitional period is one which all patentees must consider, in order to shelter their patents from the risk of a pan-European revocation by this unknown court.

Each patentee will need to develop its own opt-out strategy, however our recommendation is to consider leaving at least some patents in the UPC system, in order to benefit from the possibility of obtaining a pan-European injunction (which, once it becomes available, may become increasingly important if the influence of national courts diminishes), and also so as to help shape the jurisprudence of the UPC in its early years (and not, for example, leave the case law to be overly influenced by one particular sector or business model). One possibility, in the case of key inventions where there are still applications under prosecution, is to make use of divisional applications, leaving in some patents (including designating some future applications as unitary patents), and opting out others that are for almost the same invention (national patents could also be used to hedge in this way).

The level of the fee for opting out European patents had previously been thought to be a relevant factor in the formulation of an opt-out strategy, particularly for patentees with large portfolios. An earlier proposal had been to set the fee at €80. However, on February 25, 2016, the Preparatory Committee of the UPC published the final Rules on Court fees and recoverable costs, announcing that there will now be no fee.

While it might be thought that this will encourage patent holders with extensive portfolios to opt out a large number of European patents, it should be noted that significant due diligence will be required prior to opting out.

For a given European patent or patent application, it will be necessary for all proprietors or applicants and all holders of any Supplementary Protection Certificates (SPCs) to join the application for an opt-out. Furthermore, it is all those "entitled to be registered" as proprietors (or applicants) who must be specified on the application, whether or not they have been registered as such. Therefore, we recommend conducting due diligence to establish the identity of all of the actual proprietors of each patent/application/SPC that is to be opted out, and obtaining their agreement to opt out. To the extent that it is found that the proprietorship needs to be changed, assignments should be executed before the opt-out application is made. If the proprietorship details entered on the opt-out application form are incorrect, the rules state that the opt-out will be invalid. (Note that, as a practical matter, a party seeking to









revoke a European patent may be unable to tell that the stated proprietor is incorrect and so may, on the presumption that the opt-out is valid, bring a revocation action in a national court, which would then bar it from later bringing a pan-European revocation action in the UPC – although it may not bar another party from doing so).

We also recommend checking license agreements to establish whether consultation with licensees about opting out, or their consent, is required. In addition, going forward, future agreements transferring SPCs should reflect the need for both the SPC holder and the holder of the basic patent (even if expired) to join any opt-out application, and license and collaboration agreements should also provide for who decides whether or not an application is to be made.

The UPC will be operating a "sunrise period" in order to allow opt-out applications to be made up to four months before the court commences operation. The opt-outs would take effect on the first day and so shelter patents from revocation actions issued on that day. With the latest estimate being that the opt-out sunrise period will start in late 2016, it is recommended that patent holders commence their preparations immediately, if they have not already done so.

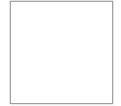
COURT FEES AND RECOVERABLE ATTORNEY FEES

Court Fees

In a previous update, we reported on a consultation document containing proposals regarding UPC fees. On February 25, 2016, the Preparatory Committee for the UPC confirmed that the fees for infringement actions (and counterclaims for infringement), declarations of non-infringement and certain other actions will be made up of two components: a fixed fee of &11,000 and a "value-based fee". The value-based fee has been confirmed as &0 for cases valued up to &500,000 and below. However, the range of value-based fees has been increased up to &325,000 for cases valued over &50 million. The value of a case will be based on the "objective interest" of the party filing the action, as determined by the court (guidelines as to this were published on the same day).

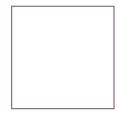
The scale of value-based fees is as follows:

Value of Action	Additional Value-Based Fee
Up to and including €500,000	€0
Up to and including €750,000	€ 2,500
Up to and including €1m	€ 4,000
Up to and including €1.5m	€ 8,000
Up to and including €2m	€ 13,000
Up to and including €3m	€ 20,000
Up to and including €4m	€ 26,000
Up to and including €5m	€ 32,000
Up to and including €6m	€ 39,000
Up to and including €7m	€ 46,000
Up to and including €8m	€ 52,000
Up to and including €9m	€ 58,000
Up to and including €10m	€ 65,000
Up to and including €15m	€ 75,000
Up to and including €20m	€ 100,000
Up to and including €25m	€ 125,000
Up to and including €30m	€ 150,000
Up to and including €50m	€ 250,000
More than €50m	€ 325,000









The fees for invalidity/revocation actions have been confirmed as &20,000, with no value-based component. If a revocation claim is brought as a counterclaim, it will be assessed at the same level as the infringement claim fee, but capped at &20,000.

An action will only have one fee, made up of the fixed component and value-based component, irrespective of the number of patents or parties. However, the assessed value of the claim will take into account the additional patents and/or parties. (For example, the value of an infringement action will usually be assessed on the basis of a notional royalty applied to the turnover in the alleged infringing product, and if more than one patent or party is involved, the royalty will reflect that).

The rules on court fees also provide for discounts in some circumstances. Small and micro-enterprises will be able to benefit from a 40% discount. In addition, there will be discounts if: (i) the case is agreed to be heard before a single judge, rather than a panel of three judges (25% discount); and (ii) if the case is withdrawn or settled early (with discounts of 60%, 40% and 20% available, depending on the stage), subject to the procedural conduct of the party seeking the discount. The court will also have power to reimburse (wholly or in part) court fees if they "threaten the economic existence" of a corporate party.

These fees are high in comparison with the fees of most European national courts, as the UPC is intended to be self-financing after seven years. However, the aim is for the fees to be proportionate to the value of the case. They will be kept under review.

Cost-Shifting – Recovery Of Attorney Fees

While there is to be cost-shifting in the UPC, the amount of fees that will be able to be recovered from an opposing party will be subject to a ceiling. The ceilings proposed in the consultation document have been revised somewhat in the final rules. For cases valued up to and including $\[\le 250,000,$ the ceiling will now be $\[\le 38,000.$ For cases valued at more than $\[\le 50$ million, the ceiling will be $\[\le 2$ million.

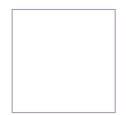
The full scale of ceilings of recoverable costs is as follows:

Value of Action	Ceiling of recoverable costs
Up to and including €250,000	Up to €38,000
Up to and including €500,000	Up to €56,000
Up to and including €1m	Up to €112,000
Up to and including €2m	Up to €200,000
Up to and including €4m	Up to €400,000
Up to and including €8m	Up to €600,000
Up to and including €16m	Up to €800,000
Up to and including €30m	Up to €1.2m
Up to and including €50m	Up to €1.5m
More than €50m	Up to €2m

In addition, the ceilings may be increased in limited situations (for example, where a case is particularly complex or where the proceedings are conducted in multiple languages). The ceilings for cases valued up to and including ϵ 1 million may be increased by up to 50%, for cases valued between ϵ 1 million and ϵ 50 million, they may be increased by up to 25%, and in cases valued over ϵ 50 million, the ϵ 2 million ceiling may be increased to a maximum of ϵ 5 million. Furthermore, the ceilings may be lowered, if the amount of recoverable fees would "threaten the economic existence" of the paying party.









FUTURE INTERNATIONAL PATENT LITIGATION

We believe that the UPC will, in the course of time, and after a possibly extended teething period, become a 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.

Trevor Cook and Anthony Trenton lead the firm's IP litigation practice in Europe. This note is an update on the latest news. Please also see our note "The Future European Patent System: Being Prepared." 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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