What should influence your decision to opt-out of the UPC?

David Wilson, Rachel Montagnon and Christopher Sharp discuss European, Unitary and national patent registration strategies in the context of the option to opt-out of the Unified Patent Court

Fast approaching is a relative term, but one that must at last be applicable to the Unified Patent Court (UPC) system. What appeared to be the only remaining significant challenge to the new Unitary Patent (and therefore the UPC), the second Spanish application to the Court of Justice of the European Union (CJEU), was rejected last month leaving the way clear for the new system to be established. A start date in 2016 is now looking possible, even if a more realistic date may be early 2017 given that the specific locations for the divisions of the central court and local and regional courts have not yet been identified in all relevant states, let alone made ready (with IT systems installed), while the training of judges is just beginning. Further the proposed legislative framework still requires ratification by several member states, including the UK and Germany.

However, there is no doubt that the new UPC system will happen. The main question now is how successful it will be and how many parties will be willing to use it in the early years. Those seeking Unitary Patent protection will of course have no choice but to enforce in the UPC, while those with existing or future European patents will have the option to opt-out of the UPC in favour of national courts for at least seven years. Opting out brings risks but also potential rewards, and involves questions such as: Do you want certainty over where proceedings are brought? How important are the patents to be opted-in or out? What is your position regarding licensees? What are the views of any co-owners? And what if you want to opt back in at a later date? While the launch of the system may seem a long way off, it is vital to consider these questions for your patent portfolio now.
Potential risk versus potential reward

**Potential risk:** Although we know much about the governing rules and procedure of the UPC – via the Unified Patent Court Agreement (UPCA) and the 17th draft of the UPC Rules (shortly expected to be issued in a final form) – we do not know a great deal about the people who will apply them. Much of the efficient and effective functioning of the new system will depend on the quality of its judiciary. More fundamentally perhaps, there are many areas of practice and procedure, and even the law to be applied, which also remain uncertain, as evidenced by the multitude of articles published on the UPC highlighting areas that trouble practitioners and academics alike. Are patentees prepared to entrust decision-making in relation to their patents, including the possibility of revocation of all European patent designations of a particular European patent bundle, to such an untested body? Further, the costs of using the new system, including the specific costs of registering a Unitary Patent, are yet to be specifically set, although a consultation was launched by the Preparatory Committee of the UPC last month.

**Potential reward:** Such negativity should be balanced against the major benefit of the UPC system, the opportunity to obtain pan-European relief against infringers; a one-stop-shop intended to benefit patentees in terms of time and costs. The hope for the future is that, through a consistently applied body of established case law, the UPC will offer more certainty for patentees and potential infringers across Europe, so making it easier to decide on business strategies for those sectors dependent on or involved with developing technologies.

Patentee strategy will involve an assessment of the uncertainties and risks of the new system against the rewards that come from allegedly cheaper registration costs for a Unitary Patent as opposed to multiple European patent designations springing from the initial EPO application under the current system (although at the time of writing this savings is still debatable in the opinion of many) and the central litigation of European patents and Unitary Patents with enforcement following in all participating jurisdictions.

The long-term opt-out: going national

One option as a patentee is to ignore the Unitary Patent and UPC system in its entirety by filing all future patent applications as individual national patents (and opting-out all current European patents from the UPC system – see more on this below). This could be effected by either applying directly to national patent offices or via the PCT route, designating the relevant European jurisdictions.

This approach has the disadvantage of course that each national patent must be obtained and then enforced separately in each jurisdiction, but a successful validity attack will only affect the patent in that jurisdiction.

National filings may well be particularly appealing for those patentees that only designate a handful of EPC member states in their European patent applications – the administrative and cost burden of prosecuting a few more applications for each patent family may not be overly burdensome. However, this may not be such an attractive approach, in terms of time and cost, for patentees that tend to designate a large number of EPC member states.

As an alternative to the national route, patentees may prefer to wait and see, continue with European applications, and make use of the transitional regime opt-out procedure (subject to some risk, more of which below).

**Opt-out option for current (and future) European patents**

Happily, the patentee is not completely at the whim of the new system. While Unitary Patents will be under the exclusive jurisdiction of the UPC from the start, for a transitional period of seven years (at least) from the entry into force of the UPC

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**UPC and national courts compared**

**European patent actions in national courts**

- Each designation of a European patent must be enforced separately in each jurisdiction.
- A successful validity attack (or counterclaim) will only affect the European patent in that jurisdiction.

**European (and Unitary) Patent actions in UPC**

- Multi-jurisdictional enforcement should be easier (and therefore also cheaper).
- BUT a successful validity attack (counterclaim) in the UPC will revoke the European patent in all UPC member states.

**Opt-out**

- Available for applications or granted patents (up to the end of transitional period)
- Fee payable (£80 per patent (bundle))
- All proprietor(s)/applicant(s) must apply (no opt-out right for exclusive licensees)
- Opt-out is for the life of the patent and beyond (end of transitional period does not end opt-out)
- SPCs based on opted out patents are automatically opted out
- Opt-out applies to all UPC member states (so no need to opt-out again if a new member state ratifies the UPC Agreement after it comes into force)
- Opt-out can be withdrawn (for another £80 per patent bundle), but if do so, cannot opt-out that patent again in the future
- Art 83(3) UPC Agreement states that you cannot opt-out if an action already brought in the UPC relating to that European patent so if you want to opt-out, do it as soon as it becomes possible – sunrise provision should allow opt-out requests to be registered before UPC comes into force
Options for patent litigation in the EU once the Unified Patent Court Agreement (UPCA) is in force

A) If select Unitary patent (UP), will still need to maintain European patents (EP) for European Patent Convention (EPC) states which are non-EU member states
B) Includes all EU member states plus EPC states eg: Norway, Switzerland and Turkey
C) UP is expected to cover 25 EU member states (will not include Spain, Poland or Croatia) but could be as few as 12 (see (D) re Italy)
D) At the time of writing, the Italian government has indicated that Italy will now participate in the UP (having previously challenged the use of enhanced cooperation to establish the UP). Italy has already signed the UPCA so if it did not embrace the

Agreement, current and newly granted European patents will be able to be opted out of the UPC system. In the view of the Preparatory Committee and of most other commentators such an opt-out is for the life of the patent, although some have challenged this conclusion saying that the opt-out only holds for the transitional period. The proposed sunrise provisions would allow patent holders to designate their current European patents to be opted out during the time between sufficient ratification and the UPC coming into effect (a four-month period), so giving patent owners the chance to opt out before the new system is online (after which circumstances may mean the option is unavailable due to the actions of third parties – see below).

Should you opt-out? Those making the decision to opt-out a particular patent (or patent bundle) or not will need to consider the following factors:
Does the European patent proprietor want certainty over where it will be able to bring proceedings or have revocation proceedings brought against it during the transitional period?

If so, then opt-out is the only certain option in relation to jurisdiction during the transitional period, since, during this period, non-opted out patents may be litigated in either the national courts or the UPC. This dual jurisdiction for non-opted out patents may appear to give the patentee control in relation to where to bring infringement actions, but there is a risk that if a patent is not opted out a third party could commence a revocation action against a European patent in the UPC system, by virtue of which the patent would not be able to be opted out at any later point. In this scenario, the third party...
Opt-out scenarios

• Core patent protecting key product – does decision vary depending on number and relative value of key markets (for example, EU-wide versus three to four core markets)?
• Process patent for key product – does the decision differ depending on the number of potential manufacturing sites and their relative geographic location?
• Patent covering potential blockbuster – do you opt out immediately or wait and see?
• Patent not used directly but already generates significant licensing revenue across EU – opt out to prevent central revocation?

Audit your European portfolio (including in-licensed patents)

General considerations relevant to the decision include:
• Certainty versus uncertainty (for example, procedure, judges)
• Flexibility of forum shopping higher if opted out
• Cost
• Relief available (level of damages, are injunctions discretionary?)
• Rules of procedure (evidence, experts, opportunities for amendment of pleadings, timescales)
• Speed

Specific considerations:
• Strength of patent (jurisdiction-dependent?)
• Value of patent (defensive, protects key product/process, licence revenue)
• Geographical scope/distribution of value in the European market
• Sector-specific issues (for example, FRAND, parallel trade)
• Do you own (all designations) of patent or license-in?

The disadvantages are that it may prove costly to opt-out every European patent in a large portfolio. The proposed fee for opt-out set out in the consultation document published last month was €80 per patent (plus another €80 to withdraw the opt-out), and patentees lose the perceived cost saving and pan-European injunction benefits of the UPC system.

Do the European patents protect key products or processes?

The advantage of opting out is that certainty in the litigation process remains for a patentee's core products by continuing to use the known judicial systems of the national courts. In addition, there is not a threat of central revocation of patents covering key or valuable products.

The corollary of this approach is that patents relating to non-core products or those which do not protect any products but which may cover competitor products or have licensing potential remain to be litigated in the UPC (or during the transitional period remain under the dual jurisdiction of the UPC and the national courts). In these circumstances, a patentee obtains the benefit of potentially cheaper litigation costs in the UPC, and knowledge of the UPC system during the transitional period (so that, when only Unitary Patents are available, a patentee has experience of the system which can be put to use enforcing Unitary Patents for core products).

The general disadvantage of this approach is having a split portfolio of European patents which will require greater monitoring by legal teams to ensure that patents are enforced in the correct systems.

Are some patents considered stronger than others?

An alternative basis (or possibly additional to the opt-out of patents covering key products – see above) is to assess whether to exercise the opt-out by reference to the strength or weakness of the validity of the patent. Whether a strong patent militates for remaining within the UPC system or opting-out will really depend on the patentee's appetite for risk in light of the uncertainties of the new system and potential for central revocation, but in principle the higher the chances of a patent being upheld, the more attractive the UPC becomes to a patentee.

Are there multiple patents applying to one product or process?

Where multiple patents apply to one product, opting-out some but not others may give you a choice of approach and court system even after the end of the transitional period. Hedging like this may become more common.

This approach might seem to cover all options, but could produce some interesting results such as parallel proceedings involving the same parties (patentee and infringer) and subject matter/products but different actions/patents.
When should patentees think about withdrawing an opt-out?

An opt-out for a European patent can be withdrawn (opted back in), so there is the option to opt-out and then withdraw the opt-out just before you know you want to try to obtain a pan-European injunction via the UPC (without risking independent actions for pan-European revocation from your competitors in the interim). However, the withdrawal option is only available if the patent has not been the subject of an action before a national court. There is a question about the scope of this provision – does it prevent an opt-out for an European patent from being withdrawn and then the European patent litigated in the UPC system if one designation of the bundle of rights in a European patent had been the subject of an action in the national courts (post-UPC coming into force)? On a strict interpretation of the rules, it would appear that this could be the case.

Remember also that once an opt-out has been withdrawn patentees cannot re-opt-out.

Of course, once the transitional period has expired then non opted out European patents will be under the exclusive jurisdiction of the UPC (rather than the dual jurisdiction with the UPC which exists during the transitional period), all Brussels I Regulation and lis pendens issues being equal, so certainty of a different sort will return.

Alternatively, embrace the UPC and do not opt-out any patents

By not opting out, a patentee may obtain all of the perceived advantages of the UPC system. However, how the system will work in practice is not known, and hence this approach could lead to a great deal of uncertainty in particular during the transitional period when there is a risk that proceedings may be brought in a national court by a competitor even though the patentee wishes to embrace the new system. There is no definitive way of completely opting-in during the transitional period unfortunately.

One particular example where it may be beneficial not to opt-out of the UPC system is where the European patent does not protect any of the patentee’s products and/or is not the subject of significant licensing income, but yet could provide the patent owner with a competitive advantage (if competitor products do use the technology). In this scenario, enforcing the European patent in the UPC system against third party infringers may be advantageous due to the possibility of obtaining both interim and final pan-European injunctive relief, while the commercial impact of a central revocation will not be disastrous.

Putting these considerations into action – NOW

Patentees should start reviewing their portfolios now, if they have not already started doing so. A key step in deciding whether to opt-out is to audit your granted European patents and applications in the context of your products or licensing schemes. For example, link particular patents to products and assess the importance of those products to the company and the regularity and variety of jurisdictions in which they have and continue to be litigated. Further considerations include examining the territories where patent protection is granted/sought, as well as reviewing pipeline products and potential protection. The latter applies equally to the decision to opt-out as to the decision to request unitary effect once a European application comes to grant. For a core patent for a key product sold only in limited jurisdictions, it may be better to opt-out and continue litigating nationally in those markets where you would traditionally have brought enforcement actions. Alternatively, consider whether pan-European enforcement may be more attractive for products sold across Europe. The particular market for a new product and the patent friendliness of the courts there may dictate the opt-out strategy.

In relation to process patents in particular, patentees will want to consider where manufacture (as well as sales) of infringing products will be taking place, and their own locations for manufacture, and to factor this into their choice of enforcement forum (and thus opt-out decisions).

The capacity to opt out a bundle of European patents should also be considered; has ownership been split; will all co-owners agree? If not is it time to start negotiations to resolve this now before the UPC comes into force.

As an additional part of the portfolio analysis, patentees should consider patents both in-licensed and out-licensed, in particular those on an exclusive basis. A key question is whether contractual terms provide the licensee with any right to request that a proprietor applies for an opt-out, and whether any provisions are included providing the licensee with control over litigation. Going forwards, patentees should consider whether to include wording in licence agreements, R&D agreements, co-promotion agreement, etc giving (or expressly preventing) licensees the right to request that a licensed European patent is opted-out of the UPC regime. Licensees should, equally, take a great interest in the patentee’s approach to opt-out, since not doing so may put the patent at risk of central revocation and arguably reduce the value of the licence or conversely, opting out could preclude an exclusive licensee enjoying the benefits of UPC en-
Monthly Unitary Patent and UPC roundup

- In two judgments on May 5, the CJEU rejected Spain’s challenges to the Unitary Patent Regulations. The rulings were welcomed by supporters of the proposed new system.
- Following the ruling, Italy’s government published a statement suggesting it is reconsidering its position and may now take part in the Unitary Patent.
- The UPC Preparatory Committee launched a consultation on court fees, including opt-out fees, which runs until the end of July.
- The Netherlands and Portugal have both taken steps towards ratifying the UPC Agreement. So far six of the necessary 13 states have ratified the Agreement.

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There needs to be centralised control of litigation. This is as true with exclusive licensees and other licensees with the right to bring an action, as it is with affiliates. Insurers and lenders may also take an interest in patentees’ opt-out stance, for similar reasons.

Where European patents are licensed or a proprietor’s business model is dependent on licence income streams, there should be serious consideration of the view of licensees and potential licensees (and to some extent the market) as to the effect of opting out or not, on the value and reliability of the licence and any exclusivity licensees are paying for. While licensees, even exclusive licensees, cannot opt European patents out of the UPC regime, they can bring pressure to bear on proprietors or cause problems with opt-out strategies by bringing proceedings in the UPC or in national courts during the transitional period, so preventing a subsequent opt-out or withdrawal of opt-out respectively.

As explained above, if a non-opted-out European patent is litigated in the UPC system then it cannot be opted out in the future. In addition, if any designation of an opted-out European patent is litigated in the national courts it cannot then be opted back in to the UPC system. It will therefore be important that local affiliates do not independently commence proceedings in the UPC/national courts as it might have knock on effects on the enforceability of the whole bundle. There therefore needs to be centralised control of litigation. This is as true with exclusive licensees and other licensees with the right to bring an action, as it is with affiliates. The amenability of such licensees and the controllability of affiliates may well influence the patentee’s decision to opt-out to maintain control, although the right to withdraw opt-out may equally be affected by a subsequent national court action, so control of this is still required.

Stealing a march on competitors and NPEs

Third party competitor patents should also be considered, before the UPC comes into effect. So called patent trolls may well find the new centralised system, with the availability of one-stop-shop pan-European enforcement and injunctions, extremely attractive. Businesses should be identifying patents that may read onto their current and future products. They should review what they know about their competitor’s patent portfolio or key patents (and applications) and watch to see if they apply to opt them out. If these patents are not opted out, it may be that attack is the best form of defence in such circumstances and that bringing a central revocation action in the UPC would be the most beneficial course to take before the competitor attempts to bring an infringement action in a pro-patent national court. Alternatively, if they have opted-out, a national action preventing opting back in could make the patent owner’s enforcement options more complicated/expense and assist in negotiating a settlement.

Brexit

The very recently formed Conservative government of the UK has said it wishes to re-assess the UK’s relationship with the EU, including via a referendum on its continued membership, to be held by 2017. Should the UK leave the EU, it would no longer be able to be part of the UPC system. Patentees wanting protection in the UK would need to follow the EPO centralised EPC application procedure or apply for national patents, as with other EPC states which are not members of the EU. The UPC would not be an irrelevance to UK businesses however as they would still need to enforce their patents or challenge competitors’ patents in the new system or even defend themselves against infringement actions in relation to activities within the UPC participating.

Now is the time to prepare

Although the UPC is not going to be up and running before the end of next year or even perhaps the beginning of 2017, patentees should use the intervening time to pro-actively decide on their strategy, lest competitors do this for them once the system is online.