Laura Deacon, Rachel Montagnon, Joel Smith and David Wilson of Herbert Smith Freehills LLP consider the commercial and practical issues for businesses of protecting a patent portfolio under the new unitary patent and Unified Patent Court system.

The advent of the unitary patent, also known as the European patent with unitary effect, and the Unified Patent Court (UPC) have caused much discussion around their impact on the patent litigation landscape in Europe. However, much less attention has been given to the commercial and other non-contentious issues arising out of the new regime.

The introduction of the UPC and unitary patent system will raise a number of issues for European patent applicants, owners, co-owners and their licensees. These issues can arise throughout the life-cycle of a patent, and patent owners, licensors and licensees (especially exclusive licensees) need to consider the implications of the new system early on in any negotiations in order to establish appropriate procedures.

Existing European patent applications and agreements under which European patents are licensed will need to be reviewed to identify the current rights of the parties and to determine whether any amendment is needed.

This article considers some of those more neglected issues that businesses will need to be aware of in order to take steps to protect their European patent portfolios under the new system. In particular, it looks at:

- Applicable law.
- Co-ownership.
- Licensing.

The unitary patent is a new single patent right giving uniform protection throughout most of the EU established under Regulation 1257/2012/EU implementing enhanced cooperation in the area of the creation of unitary patent protection (UP Regulation). To date, all EU member states except Spain and Croatia have participated in the enhanced cooperation establishing the unitary patent (the participating member states).

The unitary patent can only have effect in member states that have also signed and ratified the Unified Patent Court Agreement (UPC Agreement), which establishes the UPC as an international court. The unitary patent will not cover Poland, which has agreed to the introduction of the unitary patent but has not signed the UPC Agreement.

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The unitary patent will be available only once the UPC is established, currently expected to be early 2017. Essentially, an applicant will apply for a European patent as normal at the European Patent Office (EPO), but within one month of grant will have the option to request unitary effect; that is, to convert the European patent into a unitary patent.

(For more detail on the structure and operation of the unitary patent and the UPC, see feature articles “The unitary patent: a new patent and court system for Europe”, www.practicallaw.com/8-544-0047 and “The unitary patent: central enforcement of patents in Europe”, www.practicallaw.com/7-548-6465.)

### UNITARY PATENT APPLICABLE LAW

Before considering the new regime’s potential impact on co-ownership and licensing of unitary patents once they are available (and of both current and future European patents), it is worth noting how the UP Regulation determines the relevant law that governs the treatment of a unitary patent as an object of property.

**Sole applicant**

Where the owner of a granted unitary patent is a single entity, under Article 7(1) of the UP Regulation, the applicable law that governs how the unitary patent is treated as an object of property will be the law of the participating member state in which the applicant has either its residence or principal place of business.

**Joint applicants**

Where there are two applicants and the first-named applicant is a US entity with a place of business in any participating member state, and the second-named applicant is an English entity with its principal place of business in England, English law governs the granted unitary patent as an object of property. This is because the law of the participating member state in which the applicant has its residence or a principal place of business will take precedence over the law applying in a mere place of business.

**Transfer of application**

Where the US owner may only assign the granted unitary patent in respect of all participating member states and German law applies to the transfer.

**Transfer of granted unitary patent**

Where any future transfer of the unitary patent, regardless of the nationality or the domicile of the transferring party, will be governed by German law.

**Transfer of designation of European patent before grant**

Where the transfer of the application for the English designation must comply with English law.

## Examples of applicable law for unitary patents

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Applicable law</th>
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<tbody>
<tr>
<td>Sole applicant</td>
<td>A sole applicant for a unitary patent has its residence in the US and also has a place of business in England. English law governs the granted unitary patent as an object of property. A sole applicant for a unitary patent has its residence in the US but has no place of business in any participating member state. German law governs the granted unitary patent as an object of property.</td>
</tr>
<tr>
<td>Joint applicants</td>
<td>There are two applicants and the first-named applicant is a US entity with a place of business in France and the second-named applicant is an English entity with its principal place of business in England. English law governs the granted unitary patent as an object of property. This is because the law of the participating member state in which the applicant has its residence or a principal place of business will take precedence over the law applying in a mere place of business.</td>
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<tr>
<td>Transfer of application</td>
<td>A US company applies for a European patent and, while the application is pending, the applicant wishes to assign its rights in the English designation only. English law applies to the transfer of the application for the English designation. The law relating to applications for unitary patents is the same as that for European patents as set out under Article 74 of the European Patent Convention.</td>
</tr>
<tr>
<td>Transfer of granted unitary patent</td>
<td>A US company with no residence or place of business in any participating member state applies for a European patent and, following grant, the US applicant requests that the European patent is registered as a unitary patent. The US owner may only assign the granted unitary patent in respect of all participating member states and German law applies to the transfer. The US company wishes to transfer the unitary patent. Any future transfer of the unitary patent, regardless of the nationality or the domicile of the transferring party, will be governed by German law.</td>
</tr>
<tr>
<td>Transfer of designation of European patent before grant</td>
<td>A US company with no residence or place of business in any participating member state applies for a European patent. The US company assigns to a French company the English designation of the European patent application but retains the other designations. The transfer of the application for the English designation must comply with English law. If the European patent is granted with the same set of claims in all participating member states it would be possible for the US and the French owners together to make a request for the European patent to convert to a unitary patent. Having transferred the English designation, the US owner of the retained designations would not be able to request unitary effect unless the French owner of the English designation also requested unitary effect (see “Co-ownership” in the main text).</td>
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It is worth noting that a unitary patent will designate contracting state that applies in each designated state, be the law of that is made by the applicant whether to for European patents before any decision. The relevant law that applies to applications rules relating to unitary patent protection, granted European patent has the same set to transfer the protection to unitary effect the applicant must decide whether it wants for applying for European patents. But to granted unitary patents. The process of Article 7(1) of the UP Regulation only applies the position where there are joint applicants to a third party the rights relating to a single member state under that unitary patent; the rights under that unitary patent must be transferred in respect of all participating member states. This is consistent with the unitary patent being a unitary right which be transferred in respect of all participating member states. This is consistent with the unitary patent being a unitary right which is not divisible.

Joint applicants Article 7(2) of the UP Regulation deals with the position where there are joint applicants or joint owners of a unitary patent. The same test applies as for a single applicant under Article 7(1)(a), but it is applied to the applicants in the order in which they are identified on the application. If the first-named applicant does not meet this test (that is, having its residence or principal place of business in a participating member state), the EPO considers whether the next-named applicant meets that test. If none of the applicants reside or have a principal of business in a participating member state, the EPO considers whether the test in Article 7(1)(b) is met, again taking the applicants in the order in which they are named on the application.

Therefore, where there are joint applicants, the law applicable to the unitary patent will be the national law of the location of the residence or principal place of business in a participating member state of the applicant that is highest up the list of applicants in the EPO register. It will therefore be important for joint applicants to consider the order in which their names appear on the application for a European patent since this may affect the governing law of any unitary patent that may be granted from that application.

No residence or place of business In the situation where none of the applicants has its residence or place of business in a participating member state, the applicable law will be the law of the state where the EPO has its headquarters in accordance with Article 6(1) of the EPC (Article 7(3), UP Regulation).

So where none of the applicants for a unitary patent (that is, a European patent that is converted to a unitary patent) has any presence in any participating member state, the law governing its unitary patent will be German law because the EPO has its headquarters in Munich. This could be a key issue for applicants that have no residence or place of business in the relevant member states, but instead are resident in countries such as the US or Japan.

In practice The implication of these provisions can be demonstrated by a few examples (see box “Examples of applicable law for unitary patents”).

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new system is up and running so that any European patents that they may in future wish to convert into unitary patents will have the most advantageous applicant combinations.

**CO-OWNERSHIP**

In the context of the rights of co-owners and the principles that apply to unitary patents that are owned by two or more entities, it is necessary to be aware of the provisions that relate to co-ownership of European patent applications.

**Conversion of a European patent to a unitary patent**

A European patent application may be filed either by joint applicants or by two or more applicants designating different contracting states (Article 59, EPC). Where applicants for, or owners of, a European patent are not the same in respect of different designated contracting states, they will be regarded as joint applicants or owners for the purposes of proceedings before the EPO (Article 118, EPC).

This means that X and Y can together apply for a European patent and can together own all chosen designations. Alternatively, X and Y can apply for a European patent where X is the applicant for member states that it designates and Y is the applicant for other member states that it designates. In both situations, the EPO will consider X and Y to be joint applicants or owners.

In relation to European patent applications, the EPO will deal with the common representative unless the applicants have already appointed a professional representative (rule 151, Implementing Regulations of the EPC) (rule 151).

It is the European patent owner that must make the formal request for its European patent to be converted into a unitary patent. Where there are joint owners, it will therefore be important that they have agreed on the common representative and that there is an agreement between them governing whether a request for a unitary patent is to be made.

If the joint owners of a European patent are members of the same group of companies, the group may want a unified EU-wide approach to the enforcement of, and other dealings in, the patent and it may be sensible for the European patent to be converted to a unitary patent.

However, where joint owners own different designations and are unrelated, it is likely to be in their respective interests to maintain the patents as European patents so that they can deal independently in their separate interests in each European patent. These co-owners will also need to opt out their European patent from the UPC’s jurisdiction and so retain the right to litigate the European patent on a country-by-country basis (see below and box “The basics of opt-out of European patents”).

**Issues for co-owners and co-ownership agreements**

Co-owners should consider the following issues when agreeing the terms of a co-ownership agreement:

- Which co-owner would be named first on a patent application.
- How decisions in the prosecution of the patent application should be made.
- What issues should the parties consider when deciding whether to request the conversion of a European patent to a unitary patent.
- The steps to be followed before a co-owner assigns its interest; for example, whether the other co-owner(s) would be required to provide prior consent or be given a right of first refusal to acquire the disposing co-owner’s interest.
- Provisions in relation to licensing without consent of the other co-owners.
- Decisions about the maintenance or lapse of the patent.
- If a request for unitary effect is not made, which countries should be designated for national validation.
- Obligations to ensure that registered details of owners of European patents are kept up-to-date.
- The approach to opt-out, whether any opt-out should be requested and if so, when the request should be made.
- If an opt-out is agreed, whether withdrawal of an opt-out should be made and other enforcement issues, such as the rules that apply when deciding where and when to opt out (see “Actions brought by licensees” in the main text).
- The approach to licensing and control over litigation (including the rights of, and limitations on, licensees to bring proceedings for infringement) to ensure that rights of owners to opt out and to withdraw opt-out are maintained, if required.
- Choice of law and forum.
- Arrangements for the resolution of issues that the parties are unable to agree between themselves.

**Co-ownership and opt-out**

The UPC Agreement is the agreement under which the UPC is established. The UPC system will come into effect four months after the 13th signatory to the UPC Agreement has ratified it, as long as these ratifying signatories include the UK, France and Germany. From that date, European patents that have not been opted out and unitary patents will be subject to the jurisdiction of the UPC.

However, there is a transitional period of seven years from the UPC coming into effect, during which an action for infringement or for revocation of a European patent may still be brought in the national courts. During the
transitional period, the owner of, or applicant for, a European patent may choose to opt out of the UPC’s jurisdiction so that its opted out European patent designations can only be litigated separately, each in the relevant national court (Article 83, UPC Agreement). A request to opt out may not be made if an action has already been brought before the UPC.

The owner of, or applicant for, a European patent that wishes to opt out of that patent or application from the exclusive competence of the UPC must lodge an application with the registry of the UPC (the registry) (rule 5, Rules of Procedure for the UPC, 18th draft) (UPC rules 18th draft). Where a European patent or application is owned by two or more owners or applicants, all parties must lodge the application. The application must also be in respect of all member states for which the European patent is designated.

Since all owners must be party to the application to opt out, all owners will need to be readily identifiable, so it will be useful for the details of the owner(s) held in the register at the EPO to be kept up-to-date. Transfers of ownership of European patents should be recorded promptly and ideally before any application to opt out (or any application to withdraw an opt-out) is made. Patent owners and applicants should consider starting to review their patent holdings now and updating the ownership details as appropriate.

It is not unusual, especially where there has been a history of mergers or acquisitions of businesses and patents, or where there is a large portfolio of patents, that details of changes of ownership are not filed and recorded at the EPO. This often only comes to light when the current owner is seeking to enforce or dispose of its rights in the relevant patents. Possibly in acknowledgment of these practicalities of patent portfolio management, the UPC rules 18th draft provide that, in relation to the details of ownership held by the EPO or national register, there will be a rebuttable presumption that the person identified as the owner in the relevant register is the person entitled to be so registered.

The UPC rules 18th draft introduce the ability of a patent owner that is not recorded as the owner or applicant of the relevant European patent in the EPO (or designation thereof in the relevant national register) to lodge a declaration of ownership when filing an application to opt out or withdraw an application to opt out.

**The basics of opt-out of European patents**

All current European patents will become subject to the jurisdiction of the Unified Patent Court (UPC) once it comes into effect, with the benefits of the potential of enforcement across all UPC Agreement contracting member states but also the risk of the loss of a patent in all the contracting member states through a single revocation action.

To avoid falling under the UPC’s jurisdiction, patents may be opted out during:

- The anticipated “sunrise period” before the new system comes into effect, through application to the UPC registry, although the procedures for this are not yet in place.
- The transitional period of seven years after the entry into force of the UPC Agreement.

All the owners of all designations of a European patent must agree to opt out for the opt-out to be effective.

Opt-out may occur at any time up to one month before the expiry of the seven-year transitional period, but if a European patent has not been opted out and an action is brought in the UPC, there is no longer an option to opt out. For non-opted out European patents, there is a dual jurisdiction of national courts and the UPC during the transitional period (see below).

An opt-out may be withdrawn by the owner(s) at any point, unless an action has already been brought in a national court. Once withdrawn, however, no further opt-out can be requested.

During the transitional period, non-opted out European patents may still be litigated in the national courts as individual designations of the patent. This period is currently set at seven years from the start of the UPC but may be extended by seven years depending on a review after five years. Unitary patents will be under the exclusive jurisdiction of the UPC and cannot be opted out.

**Common representative**

Under rule 151, the EPO will deal with a common representative where there is more than one applicant or owner. The registry requires the application to opt out to be lodged by all owners or applicants. Rule 20(2)(l) of the UP rules provides that rule 151 applies equally to the UPC as it does to the EPO procedure, and as a result, an application to opt out of the UPC’s jurisdiction made by multiple owners should be filed by the common representative.

The application to opt out must be in respect of all UPC Agreement contracting member states for which the European patent has been granted or which have been designated in the application. So where different designations are owned by different owners, or where the application has been made by more than one applicant, all parties must agree whether to make the application to opt out (see box “Key considerations for opt-out”).

It is not clear whether the phrase “all owners” includes owners of designations in member states that have signed, but have not yet ratified, the UPC Agreement. Commentators have recommended that “all owners” should be taken to cover all designations in signatory states whether or not they have ratified the UPC Agreement at the time that the application to opt out is made, to allow for delays in ratification; practically, these member states would be outside the UPC’s jurisdiction in any case until full ratification.

It will be important for co-owners to have a contractual agreement between themselves to govern whether an application to opt out is to be made (see below).
Rights between co-owners
The law governing co-owned unitary patents will be the national law of the owner that is named first in the European patent register, provided that the first-named owner has its residence or principal place of business in a participating member state. This will include the law on co-ownership, which varies throughout the participating member states.

Therefore, a co-owner will need to know the relevant national law that governs property issues relating to its unitary patents. For example, if English law applies, in the absence of any agreement between the co-owners, a joint owner may not without the consent of the other co-owner(s):

- Assign its rights in the unitary patent.
- Mortgage its share of the unitary patent.
- Grant a licence under the unitary patent.

Co-owners can contractually agree their rights and obligations and also agree the governing law applying to that agreement. The law governing a co-ownership agreement can differ from the law governing the unitary patent, however, the law applicable to the agreement cannot displace the law that governs the unitary patent as an object of property.

Given the various permutations and combinations that could affect the law that applies to the property aspects of a unitary patent, it would be sensible for co-owners of European patent applications, granted European patents and unitary patents to enter into an agreement setting out the terms on which the application or patent may be dealt with (see box “Issues for co-owners and co-ownership agreements”).

LICENSING
The licensing of unitary patents and European patents following the establishment of the UPC may give rise to a number of issues including the consideration of rights relating to opting out and actions brought by the licensee, and rights to control litigation.

Opt-out and licensees of European patents
While the UPC will have exclusive jurisdiction over the litigation of unitary patents, an owner of, or an applicant for, a European patent may opt out of the exclusive jurisdiction of the UPC during the seven-year transitional period, provided that no action has already been brought in respect of that patent in the UPC.

However, a licensee under a European patent, even an exclusive licensee, has no right to opt out of the jurisdiction of the UPC. There may be more than one licensee under a patent. There may even be more than one exclusive licensee under a patent. For example, where a licence under the same patent has been granted for different fields of use, for example, a licence under a European patent for a pharmaceutical compound could be granted exclusively to X for human use and exclusively to Y for veterinary use. It therefore seems sensible that the application to opt out should only be able to be dealt with by the applicant(s) or the owner(s) of the European patent, since the registry will be able to refer to the European patent register or the relevant national register to confirm the identity of the owner, or otherwise will be able to rely on the declaration of ownership if the UPC rules 18th draft apply (see “Co-ownership and opt-out” above).

Licensees will, however, be concerned that their licensors and other licensees do not take, or fail to take, any action that could affect their licensed rights. Licensors will be equally concerned that their licensees do not take any action that could affect the patent owners’ interests and their ability to opt out (or withdraw any opt-out).

An exclusive licensee that is licensed under all designations of a European patent and
that may wish to seek from the UPC a pan-European injunction in respect of the participating member states against an infringer may not want the owner of the patent opting out of the UPC. Alternatively, an exclusive licensee that does not want to face the risk of losing its exclusivity throughout the participating member states as a result of a successful revocation claim or counter claim may prefer the patent owner to opt out of the UPC.

The approach to the decision to opt out and the resolution of differences of opinion between the licensor and an exclusive licensee will need to be addressed in the licence agreement. If there is more than one licensee, for example if there are different exclusive licensees in different jurisdictions, this will make the negotiation of terms relating to opt out even more complicated. The level of complexity is increased further if there are multiple owners, possibly each with their own licensees. In these circumstances, it may be sensible to establish some form of owner and licensee committee comprising representatives of each owner and each licensee who can meet at intervals to discuss strategy with regard to opting out or withdrawing any opt-out, and the starting of proceedings that could affect an opt-out and withdrawal of opt-out (see below).

**Actions brought by licensees**

It is not unusual for an exclusive patent licence to include a provision that gives the exclusive licensee the right to bring and control proceedings in respect of any infringement of the licensed patent. This is because it will be the business of the exclusive licensee that will be directly affected if infringing products are put onto the market and it will be the exclusive licensee seeking damages and other relief.

Under English law, section 67 of the Patents Act 1977 gives an exclusive licensee the same right as the owner of the patent to bring proceedings in respect of infringement of the licensed patent, although the patent owner must be made a party to any such proceedings. A similar provision is included in Article 47 of the UPC Agreement, which states that an exclusive licensee has the right to bring infringement proceedings before the UPC provided that it notifies the patent owner in advance (Article 47). It is open to the parties to negotiate and agree a different approach under the licensing agreement.

The patent owner will not be able to opt out of the jurisdiction of the UPC if an action has already been brought before the UPC. Similarly, the owner will not be able to withdraw any opt-out if an action has already been brought in a national court. So under a licence agreement in which the licensee has the right to bring proceedings against an infringer (or, if the licence agreement is silent, under Article 47), the licensee's choice of forum in which to litigate could affect the right of the owner of the licensed patent to opt out or withdraw an opt-out.

For example, an exclusive licensee could decide to bring infringement proceedings in the UPC. While this could give the licensee the benefit of a pan-European injunction against an infringer if successful, the bringing of the action in the UPC would preclude a owner that has not already opted out from opting out of the UPC in the future. This would mean that any counterclaim for revocation, or a standalone action for revocation, of the licensed patent would be brought in the UPC making the licensed patent open to revocation across all participating member states.

During the transitional period, the revocation action could be brought in the national courts or the UPC but the party seeking revocation may be more likely to favour the jurisdictional breadth of the UPC’s decision. In either case, a decision revoking the patent would apply throughout all participating member states, which would be very unattractive to the patentee.

It would therefore be prudent for the patent owner to provide in any licence agreement that the licensee is not permitted to start any infringement proceedings, or at least not without the prior consent of the owner. The owner can then decide whether starting proceedings is appropriate and in which court (that is, the UPC or the national court) the proceedings should be brought. Again, if there are multiple licensees or more than one owner of the licensed patent, or both, the negotiation and agreement of the rights of the owners and licensees could be complex.

Most exclusive licensees would want to have control over litigation that could affect their business and may negotiate hard for some control over the venue for proceedings, or at least for the patent owner to take proceedings where reasonably requested by the licensee.

In any European patent licence agreement, provisions dealing with opt-out should consider the following:

- The basis on which any licensed European patent will be opted out.
• The basis on which any opt-out may be subsequently withdrawn.

• The procedure to opt out and whether it requires notification, consultation or consent between the parties.

• Assistance from the other parties in relation to the application to opt out.

• Liability for costs to opt out, or the withdrawal of an opt-out.

• Agreement or consultation before any infringement proceedings are started.

As mentioned above, where there are multiple licensees or multiple owners or both, it may be sensible for all the parties to set up a committee comprising representatives of all parties to consider issues relating to bringing proceedings and opting out, with an agreed procedure for resolving any disputes or deadlock between the parties.

**PATENT VALUATION AND SECURITY**

There is an argument that by not opting out a bundle of current European patents from the jurisdiction of the UPC, and thereby leaving the whole bundle at risk of revocation in a single UPC action, the security of the individual national patent rights, and therefore their value, is reduced. This could have a deleterious effect on the attractiveness of a particular patent to potential licensees and also potentially on the value of the European patent as security for lenders.

Patentees should review European patents that have been used as security in any lending arrangements and assess the covenants given in that respect, since these commonly require the borrower to ensure that there is no damage to the value of the secured patents during the lifetime of the loan. The risk of universal revocation at the UPC of the whole bundle of European patents (which, before the introduction of the unitary patent system, are only revocable in individual national actions) could arguably be a diminution of the value of the patents, if they are not opted out of the new unitary patent system.

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