

Meet Europe's New Unitary Patent and Unified Patent Court System

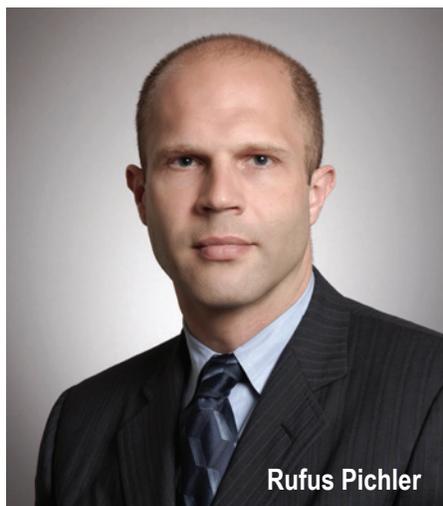
By Rufus Pichler and Otis Littlefield

Preparations for Europe's new "Unitary Patent" and the pan-European Unified Patent Court (UPC) system are in full swing. Spain's second legal challenge to the new system has been dismissed by the European Court of Justice, and it is likely that the system will go live by 2017.

Patentees and applicants—and their counsel—need to be familiar with the new system that will reshape Europe's patent landscape. Important strategic planning for patent prosecution, litigation and licensing strategies needs to take place well in advance to avoid being caught flat-footed when the system is officially up and running.

EUROPEAN PATENT CONVENTION AND ITS SHORTCOMINGS

The European Patent Convention of 1973, in effect since 1977, and the establishment of the European Patent Office (EPO) were major steps toward facilitating patent protection in Europe. The system allows for patents to be granted on a single application for up to 38 countries, based on a centralized search and examination procedure handled by the EPO. However, once granted, this "classic" European patent results



Rufus Pichler

in a bundle of national patents that are independent from each other. They can be interpreted differently, have to be enforced separately and may be invalidated on a country-by-country basis. In addition, individual countries require validation, and in many cases translations, for their respective national sticks of the European patent bundle to be effective.

Because of these shortcomings, attempts have been made over the years to establish unitary patent protection across Europe. The latest attempt to create a European Community patent began in 1998, but discussions broke down in 2010 over language and translation issues.

UNITARY PATENT PACKAGE

This led to an alternative proposal supported by 25 of the then-27 EU



Otis Littlefield

member states, all except Spain and Italy, which ultimately resulted in the so-called "Unitary Patent Package." The package consists of two EU regulations (Nos. 1257/2012 and 1260/2012), creating the "European Patent with unitary effect," and related translation agreements and the Agreement on a Unified Patent Court (UPCA). The entire package will become effective once 13 participating member states, including at least France, Germany and the UK, have ratified the UPCA. So far, six member states, including France, have done so.

UNITARY PATENT AND UNIFIED PATENT COURT

The Unitary Patent has equal and unitary effect in all participating member states that have ratified the UPCA at the

time of the grant. It is treated as a single patent, not a bundle of national patents, and can be transferred, invalidated and renewed only in its entirety. No national validation is required. The Unified Patent Court has exclusive jurisdiction over Unitary Patents, including infringement and invalidity proceedings. The UPC also has jurisdiction over “classic” European bundle patents, but there is an opt-out right for existing European patents and those that issue prior to the end of a seven-year transition period. During that transition period, there will be parallel jurisdiction of national courts for classic European patents, even if they have not been opted out of the system.

The key difference is that the UPC’s decisions will always affect all sticks of the classic European patent bundle, while national courts’ jurisdiction is limited to their own national stick. In the UPC, patentees can bring centralized enforcement actions for all covered countries, but they also face an “all-or-nothing” invalidity risk. It is important for patentees to understand that their entire existing European patent portfolio will be subject to the UPC’s centralized jurisdiction—and the all-or-nothing invalidity risk—by default, unless the patentee proactively opts out.

A FRAGMENTED PATENT LANDSCAPE

The Unitary Patent package will not result in a simpler, more uniform patent regime in Europe. To the contrary, the patent landscape will become more fragmented, with a host of patent prosecution options, opt-out possibilities

and parallel or competing jurisdictions of national courts and the UPC.

Unitary Patent protection itself is optional and will coexist with classic European patents as well as national patents issued by national patent offices instead of the EPO. The EPO pre-grant process will remain unchanged, and application, search, examination and grant procedures will be the same for classic European patents and Unitary Patents.

Once granted, the patentee can choose to do nothing, in which case the grant will result in a classic European bundle patent, or file a request for unitary effect. This request has to be filed within a month of the European patent grant being published. Upon registration of the unitary effect, the granted patent will become a “European Patent with unitary effect.” However, unitary effect extends only to those countries that participate in the system and have ratified the UPCA at the time. This will inevitably result in a mix of Unitary Patent rights in some countries and classic national sticks of a smaller European patent bundle in other countries.

Currently 38 countries are part of the European Patent Convention: the 28 EU member states plus 10 others. The 10 non-EU countries cannot participate in the Unitary Patent system. Out of the 28 EU countries, Spain and Croatia do not participate in the Unitary Patent or the UPC regime, Italy does not participate in the Unitary Patent regime but has ratified the UPCA, and Poland participates in the Unitary Patent regime but not the UPCA. That means the Unitary Patent regime will not become effective for Poland. Moreover, the Unitary Patent system will become effective at different

times in different participating countries. It will initially be effective for the first 13 participants that have ratified the UPCA—as long as France, Germany and the UK are among them. The number will grow as additional countries ratify the UPCA.

As such, electing unitary effect may, in the early stages of the system, result in a Unitary Patent for 13 countries subject to the jurisdiction of the UPC and classic national European Patents in up to 25 other countries which are not subject to UPC jurisdiction, except in Italy. In addition, patent applicants can choose to file nationally and avoid the UPC system altogether. And they can take a strategic mix-and-match approach choosing between Unitary Patents, classic European Patents and national patents—as well as UPC jurisdiction or national courts for their classic European patents—on a case-by-case basis, employing different strategies for continuations, improvements or other inventions covering closely related subject matter.

UPC JURISDICTION AND OPT-OUT

Once established, the UPC has jurisdiction not only over Unitary Patents, but also over all classic European patents, whether pre-existing or granted in the future. The benefit is centralized enforcement as opposed to multiple national infringement actions, but the price is that an invalidity finding will automatically apply to the entire bundle. This could be a significant risk for patentees and may lead many to make use of the opt-out right. The opt-out possibility exists for all classic European

patents that have issued or are applied for before the end of the seven-year transitional period.

Whether to opt out is a key strategic consideration that patentees should be thinking about now. The opt-out can be declared until the end of the transition period, but the patentee is precluded from opting out once a UPC action has been initiated—including a centralized invalidity action initiated by a third party. On the other hand, a declared opt-out can be withdrawn, but only until an action in a national court has been initiated. The potential benefit of centralized enforcement will have to be weighed against the all-or-nothing invalidity risk.

Procedural aspects are also relevant, as are the interests of licensees with enforcement rights which may or may not be aligned with those of the patentee. To make matters even more complicated, national courts have parallel jurisdiction over classic European patents during the seven-year transition period, even if they have not been opted out. The possibilities for strategic offensive, defensive and pre-emptive litigation are numerous. On the other hand, the UPC's jurisdiction over Unitary Patents will be exclusive from day one. Electing unitary effect in the first place is, of course, optional.

THE SIGNIFICANCE OF GERMAN LAW

The Unitary Patent will be treated “as an object of property,” as a national patent of one of the participating member states. The following important aspects will be governed by national law: assignment of the patent, enforceability of licenses or

covenants not to sue against an assignee and whether recordation is required, default rules regarding assignability of licenses and the ability to grant sublicenses, consent and accounting requirements between co-owners or the fate of licenses in bankruptcy.

The law on those issues is not harmonized across Europe and can vary widely. The “nationality” of the patent is determined by the principal place of business of the applicant as provided in the EPO patent application. In the case of joint applicants, the determination is based on the applicant listed first, so merely changing the order can have significant substantive consequences.

If the applicant does not have a principal place of business in a participating member state, German law applies by default. Commentators have observed that this could result in the application of German law for up to 80 percent of all Unitary Patents, based on historic EPO filing data. Patentees should consider the impact of the applicable national law when filing their EPO applications.

NO TIME TO WASTE

Patent owners and licensees should already be thinking about important decisions they will need to make to be ready for the Unitary Patent and UPC system. Most urgently, they should develop an opt-out strategy and decide whether to exercise this right for all or some of their existing classic European patents so they are ready to register opt-outs during the expected sunrise period and eliminate the risk of early UPC challenges that will pre-empt the opt-out.

Owners also need to develop patent prosecution strategies to use the many patenting options—Unitary Patents, classic European patents and national patents—to their advantage and assess the cost impact. For any European patents that issue once the system is live, including currently pending EPO applications, there will only be a one-month window to elect unitary effect. In licensing transactions, parties should address the Unitary Patent option and the opt-out and other litigation choices when allocating prosecution and enforcement rights between the patentee and licensor and one or more licensees.

Rufus Pichler is a partner in Morrison & Foerster's technology transactions group, focusing on licensing and commercial transactions as well as strategic counseling involving patents and other intellectual property. Based in San Francisco, he is qualified to practice law in the United States and in Germany. Otis Littlefield is a partner in Morrison & Foerster's patent prosecution group focusing on strategic management of patent portfolios for life sciences clients and associated licensing work and patent litigation support. He is based in San Francisco and frequently works out of the firm's London office.