

A Deep Dive Into EU Unified Patent Court Policy

By **Robert Sterne** (May 24, 2023, 5:30 PM EDT)

Arguably the most significant development in global intellectual property since the America Invents Act became operational in 2012, both the European Union Unified Patent Court and the Unitary Patent go live on June 1.

This new legal regime covers 17 countries in the EU — Spain and Poland are still holdouts — and provide a single court proceeding covering over 310 million people.

This article discusses the top line attributes of this new regime and the critical need to understand the EU court and European Patent Office-based patent — both from an enforcement and freedom-to-operate perspective.



Robert Sterne

A First Look

There are 13 national, and one regional, courts of first instance scattered over the EU that are first instance tribunals.

Additionally, there are two central divisions — one in Munich and another in Paris — that hear validity, or revocation, challenges to nonopted out EP patents and future EP and UP right.

All these first instance proceedings according to the rules are to be completed in 12 months. This makes the UPC faster at the trial level than even the U.S. International Trade Commission and the U.S. Patent and Trademark Office's Patent Trial and Appeal Board. Whether these proceedings are faster in China is unknown at this point.

All of the first instance courts feed into a second-instance reviewing court in Luxembourg City, which will review the first instance decisions de novo. The reason for the de novo review on law and facts appears to be rooted in the goal of creating a uniform body of UPC patent law.

It is critical to understand that the judges in the first instance courts, while extremely experienced in judicial proceedings and local patent law, will be coming from the national EU courts where they presently sit.

It is assumed that they will bring their specific approach to patent law to their new UPC proceedings based on the jurisprudence of their home country. The second instance court is charged with the task of harmonizing UPC patent law over time.

The UPC was scheduled to go live in 2016, but Brexit was one of the hold-ups that prevented the launch at that time.

The original plan was to have London as the third central division court with responsibility over pharmaceutical technology — Paris was to have electronics and Munich everything else.

Brexit resulted in the United Kingdom's ejection from the UPC. Because the U.K. was a primary member of the long-awaited UPC, many thought the UPC was dead.

With judicial and executive intervention, the absence of the U.K. was overcome. At this point, it appears that Milan, which had been lobbying to replace London as the third central division, will not be accepted and the central divisions will instead only be located in Munich and Paris — a blow to Italian importance in the UPC.

The loss of the U.K. also has substantive and procedural implications to the law. EU patent law is based upon a civil law system of statutes and rules, whereas the U.K. would have brought common law to the UPC. Many lament this development, because they believe that a strong common law influence in the creation of the UPC patent law would be of benefit.

Further, British barristers will not have the right of audience before the UPC, which has fueled the creation of a flurry of law firm alliances and strategies for these barristers to circumvent this advocacy limitation. EPO-qualified advocates will have right-of-audience even if they are from the U.K.

Germany has historically dominated patent litigation in the EU with over 70% of the patent cases filed in Europe being filed in its courts, with Dusseldorf as the undisputed leader of the patent litigation docket.

Under the UPC, Germany will have four national UPC courts — Dusseldorf, Munich, Hamburg and Mannheim — making it the only one of the 17 countries with more than one national first instance court. Each first instance court will have three legal judges and one technical judge with the legal judges being selected from the national courts of their jurisdiction.

Because being a UPC judge is prestigious and remunerative, there is major shift in competent patent judges from the national courts to the UPC, and there is concern about this. There is also a very recent trepidation about whether there will be enough technical judges, because just-announced conflict of interest rules have caused some trained technical judge candidates to withdraw from appointments.

For the next seven years, the UPC will operate in parallel with the extant national patent courts in the 17 countries of the UPC. This situation creates a complex structure for enforcement and freedom-to-operate that is layered on the uncertainty of how the UPC itself will actually operate in conjunction with these national courts.

Legal practitioners in the EU and U.K. have fanned out globally with visits and webinars to collaborate with their counterparts trying to explain to patent owners and others how this new hybrid system will operate.

The following is my best understanding of what is to come based on literally hundreds of hours of meetings I've had and conference panels on which I have served. But what will happen in practice is not something we can know at this point.

The UPC System

Two key areas of focus for enterprises operating in the EU ahead of the June 1 deadlines should be deciding whether to opt out of their EP patents, and preserving and protecting freedom to operate.

Opting out an EP patent — as this legal mechanism has come to be known — means the owner takes administrative steps using the UPC case management system to remove the EP patent from the jurisdiction of the UPC.

Such removal prevents a revocation challenge of the opted-out EP patent by a challenger at a UPC central division in a stand-alone revocation proceeding. Such an opt-out means that the EP patent can still be enforced country-by-country where the EP patent has been validated, but it also can be challenged for validity in an action in that country's court.

Because of the uncertainty of how the UPC will actually operate, many holders of EP patents have elected to opt-out all of their EP patents. As of this writing, there is a potential for a sudden, sharp — or hockey-stick — development in the number of opted-out EP patents.

Currently, there are 1.5 million unexpired EP patents, and by June 1, there could be several hundred thousand requests for opt-out. Early action by owners is recommended, because it is uncertain whether the UPC case management system will have the capacity to keep up with the requests, and opt-out only has occurred when all of the administrative steps have been successfully completed.

The second critical deadline is an assessment of whether EU freedom to operate will be preserved post-June 1. The widespread belief is that the UPC is going to be pro-patent.

Two reasons are advanced. First, the UPC judges are coming from their national courts where they are the dominant patent judges. While becoming a UPC judge is definitely a step-up professionally due the prestige of the new European-wide court and financially — based on published reports — the court is self-funded by filing fees.

These filing fees come from parties asserting their patents in the UPC and from parties challenging validity in stand-alone revocation proceedings. It is thought that enforcement will dominate the UPC docket rather than revocations. For this reason, conventional wisdom says that UPC judges in the UPC national courts will encourage filings by being pro-patent.

A second factor is that law firms in the 17 UPC countries are promoting UPC enforcement options with zeal. They think the court structure and expected procedure will create a fast, efficient, cost-effective UPC-wide enforcement tribunal superior to the U.S. and other jurisdictions.

As noted above, the rules set forth a 12-month timeline from filing-to-completion of a first instance UPC enforcement suit.

Validity, infringement, and remedies will be decided in this 12-month timeline. This is in contrast with the fast infringement determinations in German regional courts with a so-called infringement gap of between 12 and 24 months between this determination and the slower nullity proceedings in the German Federal Patent court.

While other country courts, such as those in the Netherlands, address validity and infringement in a single proceeding, to do so on the 12-month timeline of the UPC is concerning to alleged infringers. Discovery is limited in the UPC compared to the U.S., requiring self-help by plaintiff patent owners and defendant accused infringers.

But the UPC enforcement is definitely front-end loaded allowing the plaintiff months to prepare the suit before filing, whereas the defendant often will be caught completely by surprise. Reportedly, extensions of time will seldom be granted by the UPC.

This asymmetry requires entities operating in the EU to immediately assess their freedom to operate positions relative to their immediate competitors. This assessment requires a review of the EP portfolio (both in the UPC and opted-out) of each major competitor, and a review of the EP portfolio — opted-out and still in — of the entity.

Only then will the defensive and offensive positions be understood both in the UPC and in the national courts where validated EP opted-out patents are present.

Many enterprises have, or will have, opted out of all of their EP patents. The thinking is that this is the most prudent course due to the lack of visibility of how the UPC will actually operate.

However, this complete opt-out may backfire. Assume the patent owner wants to opt back in the EP patent to sue the competitor in the UPC. Because the UPC allows the EP patent owner to sue the infringer in all 17 countries in a single action, this could be a great response to a UPC suit by the competitor.

Opting back into the UPC is allowed in the rules. But a defensive strategy has surfaced of attacking the validity of the opted-out EP patent in a national court prior to the attempt to opt back into the UPC. This has been dubbed a UPC torpedo.

It sounds complicated, and indeed it is. And yet this is just one example of how complex this new EU patent regime is.

Defensive letters are a tool to shield an accused infringer from a preliminary injunction in certain EU jurisdictions. Germany and France come to mind with regard to this approach. A defensive letter is a filing in a court ex parte that sets forth defenses to a possible patent suit.

The filing typically prevents an ex parte preliminary injunction. Many such protective letters are under preparation for the June 1 start to filing.

It has been said that some of the UPC judges are reserving hearing dates in August and September for predicted preliminary injunction hearings.

The filing of protective letters is another prophylactic measure to ensure a hearing before a preliminary injunction is granted.

Since parallel actions may be warranted in the U.S., China, and possibly other jurisdictions, this requires a global team that is fully integrated and operational. The expertise and bench strength required of the accused infringer's global UPC defense team means that there are only a small number of viable options in this new global patent world.

Some Key Points

I conclude with several additional points of importance. The UPC is a loser-pays system. Depending on the size of the damages sought, the amount the losing party has to pay could be substantial compared to other loser-pays systems, such as Germany.

Once liability has been found in the first instance proceeding, a separate damage proceeding will take place. This damage proceeding will also have to be completed very expeditiously.

EU patent damage law is nascent, because in the bifurcated German system, a settlement of the suit between the parties most often occurred during the so-called German injunction gap.

Moreover, access to the court records in Germany is very limited compared to the transparency contemplated in the UPC. It remains to be seen how damage law develops in the UPC.

Further, it is expected that both preliminary injunctions and permanent injunctions will be granted in completed first instance decisions. However, a bond will be required of the prevailing plaintiff, which could be in the hundreds of millions of Euros, depending on the perceived damage to the defendant if the case is overturned by the second instance court.

Because the expense of such bonds could be prohibitive, particularly for small enforcement entities, it is proposed that such injunctions be stayed or modified pending completion of the second instance appeal.

One can see that many questions remain that time will only answer as the UPC and UP become institutionalized. However, it is clear that the UPC creates a new patent world in the EU and all enterprises operating in or having EP patents must assess their possible risks and rewards now that June 1 is near.

The global patent world will be changing very soon, and those who have a proactive understanding and strategy for the new UPC and UPs will be well-served compared to those who take a wait-and-see approach, as they are prone to be vulnerable.

Robert Greene Sterne is a director at Sterne Kessler Goldstein & Fox PLLC.

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