D YOUNG & CO PATENT NEWSLETTER no.58

April 2017
UP & UPC Special Edition
In this issue:

Also: A brief European patent news round up for March 2017 and D Young & Co forthcoming events, including our May European biotech patent case law webinar

Special edition
Are you ready for the unitary patent and Unified Patent Court?

Editorial

The UPC Preparatory Committee has declared a state of readiness for the UPC provisional application period to begin at the end of May 2017. What steps should users of the European patent system take now to be ready?

In this special edition newsletter we consider four key issues: opting out of the UPC; the UP; the impact of the UP & UPC on licensing; and litigation planning.

It is important to remember that there are two parts to the new system: the UP and the UPC. These are interlinked but they are nevertheless separate things and need to be understood as such.

The UP will be a single patent right, obtained via a conventional European patent application and chosen as an option at grant. It will take effect in all the designated states that are participating member states of the European Union. It can only be enforced or revoked (excluding opposition ie, opposition and limitation procedures are still available at the EPO) in the UPC.

The UPC will be the litigation forum for UPs and, subject to an opt-out, all conventional European bundle patents (EPs) will also fall within its jurisdiction.

Editor:
Richard Willoughby

Subscriptions

Sign up to receive our trade mark and patent newsletters by post or email:
subscriptions@dyoung.com

Read online and view previous issues:
www.dyoung.com/newsletters

Follow us

LinkedIn: **dycip.com/dyclinkedin**
Twitter: **@dyoungip**

Unitary patents
What are the advantages & disadvantages of the UP?

A unitary patent (UP) will be a single patent right, having unitary effect in the participating member states. It will take effect in all the designed states that are participating member states of the European Union (EU).

What are the benefits of a UP?

The UP will provide:

- widespread coverage across multiple countries;
- central administration and renewal;
- limited translation costs and cost-effective renewal fees (when compared to widespread EU coverage obtained via either EPs or national patents); and
- central litigation in the UPC.

What are the potential downsides?

The downsides are the mirror image of the benefits. So, if you do not usually obtain widespread patent coverage in the EU and/or tend to reduce coverage over time by letting patents lapse in markets that prove to be unimportant, then the cost benefit analysis begins to shift away from a UP. The other potential disadvantage is central litigation. Centralised litigation places your patent at risk across multiple countries all in one go. UPs can also only be enforced in the UPC, which may not necessarily be a more cost effective enforcement mechanism as compared to national courts. This will depend on the nature of your business, and whether you need to enforce you patent in multiple jurisdictions at the same time.

When will I be able to get a UP?

Applications filed at the EPO that grant on or after the commencement of the system, which is likely to be some time in December 2017, will potentially be eligible for a UP. The process will be relatively simple – it will be an option chosen within a month of grant at the EPO.

Not all European patent applications will be eligible for UP protection and we would suggest that advice is taken before selecting the option. It will also be essential to remember that validation in non-participating EU member states, and EPC states outside the EU, eg, Switzerland, will still be necessary.

Are there any other issues to be aware of?

Yes. First, for any new applications which may become UPs, thought should be given to the nationality of the applicant. The national law of that applicant, if from the EU, (or the first applicant, if there are co-applicants) will apply to property issues affecting the patent (transfer, licensing, mortgaging, utilisation by co-owners). If the applicant is not EU based, then the law will be German law.

The main issue to think about is utilisation by co-owners, which can be an issue with some EU national laws. We suggest you seek advice on this issue especially if you have co-applicants that include nationals from the EU. Secondly, UP coverage may be limited or even not available for some existing applications. Initially, not all member states who have signed up to the UPC Agreement will have ratified when the system commences. This means that rather than covering all 25 participating member states, early UPs will only cover a smaller number. This will no doubt affect the cost benefit analysis of UP selection in the early days. In addition, some applications may not even be eligible for UP protection. These include applications filed before Malta joined the EPC (01 March 2007).

In all these situations, it will be important to assess the position early and to keep an eye on national validation deadlines in order that alternative coverage nationally is not lost inadvertently. We recommend taking advice on the availability of UP protection generally, and in particular during the early days of the UP and UPC system.

The possible implications of the UK leaving the EU should also be borne in mind. UPs obtained before the UK leaves the EU will cease to cover the UK as of the date the UK leaves. We assume that national coverage will be created to cater for this loss of protection, but there are currently no proposals as to how this will be done. While the additional cost of such a national UK right may be comparably immaterial, the uncertainty may be a factor in your decision to obtain a UP.

Author:
Rachel Bateman

Litigation
A strategic approach to UPC litigation

With the advent of the UPC, it is essential that it forms part of any litigation strategy. While some users are likely to want to see how the UPC settles down in the early stages, there are others who may see strategic value in commencing proceedings in the UPC, potentially in parallel with existing or proposed national proceedings against the same defendant. In particular, the use of this additional forum, coupled with the threat of a pan-European injunction may serve to focus the minds of those sitting around the licensing negotiation table. We discuss a few of the practical and tactical considerations below.

General
It is essential to be aware that proceedings in the UPC are front loaded, meaning that an initial statement of case must set out a party's case in detail, and include evidence relied on, amongst other things. Therefore, preparation for early proceedings in the UPC will need to begin well before the system commences.

Infringement proceedings
If you think you may wish to launch infringement proceedings early, perhaps to preclude a pre-emptive declaratory action in a national court, there are several steps to take.

Most importantly of course is to collect evidence of infringement, including where this takes place, and to prepare the arguments, facts and evidence relied on.

In doing this, consideration should be given to choice of division at the UPC. The jurisdictional rules (see right) cover which division or divisions can be chosen for a case, and where there is a choice there will be tactical considerations. These will include language and national approaches (local divisions will approach things with a "national flavour" in the early days of the court). Choice of division in this respect will depend on what remedy or remedies you may wish, including interim remedies, and possibly national approaches to legal issues.

Jurisdictional rules for UPC infringement actions
Actions for infringement should be brought before the **Local** or **Regional Division** in either

a. The contracting member state in which the infringement occurred; or

b. The contracting member state where the defendant (or one of them, if multiple defendants) has its residence or principal place of business or, in the absence of either of these, its place of business.

An action for infringement can be brought in the **Central Division** where either:

c. The defendant has its residence, principal place of business or, in the absence of either of these, its place of business outside the territory of the contracting member states; or

d. The contracting member state concerned (for the purposes of (a) or (b) above) does not have a Local Division or participate in a Regional Division.

An action against **multiple defendants** can be brought only where the defendants have a commercial relationship and the case relates to the same infringement. Counterclaims for revocation or a declaration of non-infringement must be brought before the same division as the infringement action to which they relate.

As can be seen from the above, the jurisdiction rules provide the potential for choice of UPC division in many infringement cases, in particular where there may be multi-country infringement and/or multi-defendant litigation.

Invalidity proceedings
There will certainly be some users who want to commence invalidity proceedings in the UPC early, to achieve an early and comprehensive clearance across the relevant European market. It is likely that well advised patentees will be aware of this risk and seek to opt out patents that may be subject to such proceedings but careful monitoring of opt-outs at the UPC Registry, and identifying potential mistakes in those opt-outs, could mean that opportunities arise to challenge patents before an effective opt-out has been registered.

Protection from interim injunctions
Where a party is concerned about the risk of an interim injunction being sought against them in the UPC, there is the possibility to file a protective letter at the UPC Registry. This should ensure that any application for an interim injunction is notified to the party concerned, and avoid the possibility of any injunction being granted without notice or the opportunity to be heard. Users may wish to consider preparing protective letters in advance of the commencement of the UPC.

The jurisdiction and procedural arrangements in the UPC are relatively complex with a number of subtleties. Our UPC experts will be happy to advise in detail on request and assist with any UPC preparations you may wish to make.

Author:
Antony Craggs

Unified Patent Court
What is the opt-out?

The opt-out refers to the possibility for European patents (EPs) or pending EP applications to be opted-out from the jurisdiction of the Unified Patent Court (UPC). It will be available during a transitional period of seven years from commencement of the system (or perhaps longer), although it may be applied for even before commencement.The opt-out is not relevant for unitary patents (UPs) – these cannot be opted out of the UPC.

The opt-out refers to the possibility for EPs to opt out from the jurisdiction of the UPC

Why is the opt-out available?

Decisions of the UPC will take effect in all participating member states. For EPs (and any related supplementary protection certificates, or SPCs), this means in all participating member states in which there is a patent in the "bundle". This includes revocation decisions – thus the UPC provides the possibility to invalidate EPs in all relevant participating member states, in one go, in a similar way to opposition proceedings.

For some users, exposing valuable patent rights to the risk of multi-country invalidation in a new and untried court system is not acceptable. The compulsory imposition of such a system on existing valuable patents is therefore considered by some users to be inappropriate. Further, a transitional period during which the UPC system can stabilise is necessary. During this time, users should maintain the possibility of obtaining a European patent without exposure to the UPC. Accordingly, the UPC Agreement provides for the opting out of existing and future EPs.

How long does an opt-out last?

Once on the UPC register, an opt-out will last for the life of the patent, unless and until it is opted back in.

Should I consider opting out?

This probably depends on your industry sector but the basic consideration will be: Do I have EPs which are so valuable that I cannot risk central revocation in the new system? This consideration could be tested by asking "will I be relieved when the opposition period expires and no opposition has been filed?" If the answer to that question is yes, then you should seriously consider opting out EPs which fall into this category. Patents already subject to opposition are obvious candidates to opt out. It may be that only a limited number of patentees really need to opt out, principally in the life sciences sector, where highly valuable products are often protected by only a limited number of patents. However, other sectors should give active consideration to the risk of central revocation.

If I opt out, where can the patent be litigated?

If opted out, a conventional EP can only be litigated in the relevant national court, just as now. This applies to both infringement and revocation proceedings.

Can I opt back in?

Provided no patent in the relevant bundle has been litigated in a national court, yes. You can only do this once and you cannot opt back out again. It does however provide the potential flexibility of removing an EP from the jurisdiction of the UPC until such time as the patentee may wish to use it.

When should I opt out?

The opt-out will be available as an option for a period lasting seven years from the commencement of the new system. An opt-out can be exercised at any time in that period, provided the EP has not been litigated in the UPC already: eg, the patentee or a third party commencing an action in the UPC would preclude the patentee then opting out. There will be the possibility to opt out before the system formally commences, which will be necessary if there is any risk of an early revocation action or declaration of non-infringement in the UPC. The UPC will have a sunrise period, likely to begin on around 01 September 2017, during which opt-outs can be applied for and registered before the system commences (likely to be around December 2017). It will be highly advisable to make use of this possibility for valuable EPs, and to do so early to allow for any delays at the UPC Registry caused by a rush to file these pre-commencement opt-outs.

What happens if I don't opt out?

For at least the first seven years of the UPC, EPs that are not opted out will be subject to the jurisdiction of both the national courts and the UPC. During that period it will therefore be possible to choose between enforcement nationally, in member states' courts, or pan-nationally in the UPC. This flexibility is attractive to some users since it keeps their options open without the administrative hassle of opting out and opting back in again.

Once the transitional period is over however, any EP (or application for an EP) that

has not been opted out will be subject to the exclusive jurisdiction of the UPC.

What about supplementary protection certificates (SPCs)?

SPCs can be opted out but this can only be done together with the patent with which they are associated. Equally, if a patent is to be opted out, all the associated SPCs must also be opted out. In practice it is the patent which is opted out and all SPCs must follow. This can cause problems if there are different owners of the patent and its various SPCs (see below).

How do I opt out?

The opt-out will be administered by the Registry of the UPC. Opt-out applications will be made online, via the UPC's case management system. It will be possible to submit batch applications for multiple EPs.

How much will it cost?

The good news is there will be no official fee to apply for an opt-out. The only costs involved therefore will be internal administrative costs, and any external adviser charges should you decide to ask a representative to make any applications on your behalf.

Who can opt out?

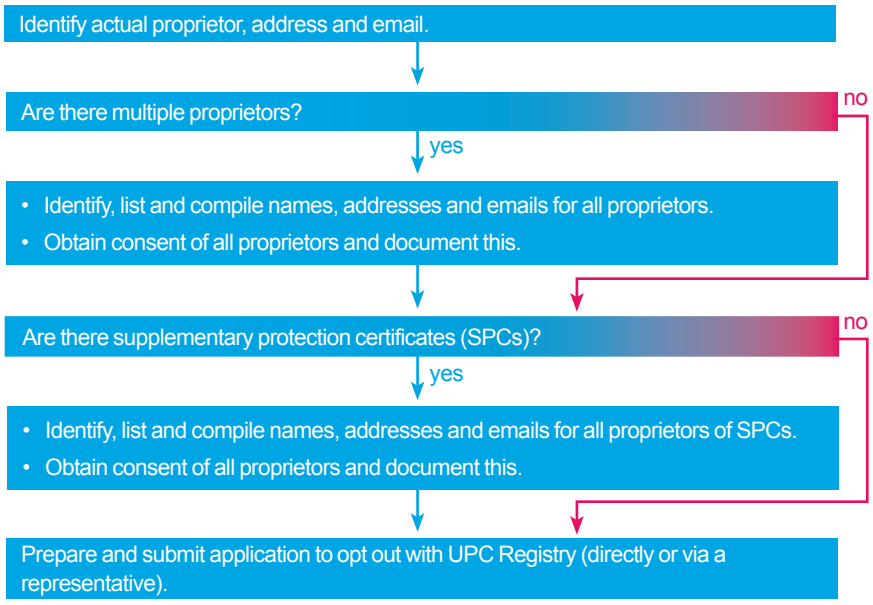
Only the 'true' proprietor can opt out, and all EPs in a bundle must be opted out together (along with associated SPCs). This can cause problems for example where:

i. There are different proprietors for each patent in the bundle: this may happen where for example different group companies may own the various patents in a bundle.

ii. There are SPCs granted under the relevant patent but these are under different ownership from the patent itself.

iii. The registered proprietor or holder is not the true proprietor. If the application is made in the wrong name, the opt-out may be invalid. A correction can be made but this will not be back-dated.

Patent opt-out flow chart



iv. You are a licensee – you cannot opt out if that is the case (see also **Licensing**, page 03 of this newsletter).

In the cases of (i) and (ii), a single application to opt out can be made for all the related patents and SPCs but the applicant for opt out must make a declaration and complete a mandate to the effect that they have the authority to apply on behalf of all proprietors and holders.

What should I be doing now?

You should be reviewing your portfolio to identify any EPs that are of very substantial value and/or may be susceptible to a central revocation challenge in the UPC. This may include patents already in opposition. You should plan to opt these out from the UPC.

In conjunction with this, you should identify any proprietorship issues. For example, if different companies in your group own the different EPs in a bundle, all proprietors must agree to the opt-out and provide authority to a specific person/entity to apply for the opt-out on their behalf. The same goes for any EPs in a bundle that you may have transferred to third parties, and SPCs.

It is particularly important to check the ownership situation for your EPs and SPCs, since some may be in different ownership from that shown in either the national or European Patent Office registers, or indeed internal records. As noted above, failure to apply for the opt-out in the correct name could render an opt-out ineffective.

It is also advisable to ensure that the relevant national registers (and the EPO register, in the case of a pending patent application) are up to date since there will be a rebuttable presumption that the persons listed on these registers are the persons entitled to be registered as proprietor/applicant, as appropriate.

You should also identify any EPs under which you are the licensee that fall into a similar value or risk category as regards your business, especially where you may be an exclusive licensee.

Author:
Richard Willoughby

Licensing

What are the main issues concerning licensing that the UP and UPC will impact?

As regards the UP, it will be the applicant who has the choice of selecting a UP. Licence agreements are likely to address the question of who deals with the prosecution and validation of pending EP applications, and these should cover, in general terms, the UP option. They will not however deal with it specifically, and there are of course important financial aspects of the choice.

There are several different licensing issues relevant to the UPC.

1. With regard to the opt-out for conventional EPs, only the proprietor can do this. For licensees who operate under patents of great importance to their business, especially exclusive licensees, opting out may be an important consideration.

2. The UPC Agreement anticipates that all licensees – exclusive or non-exclusive – may have the ability to bring infringement proceedings, depending on the terms of the licence.

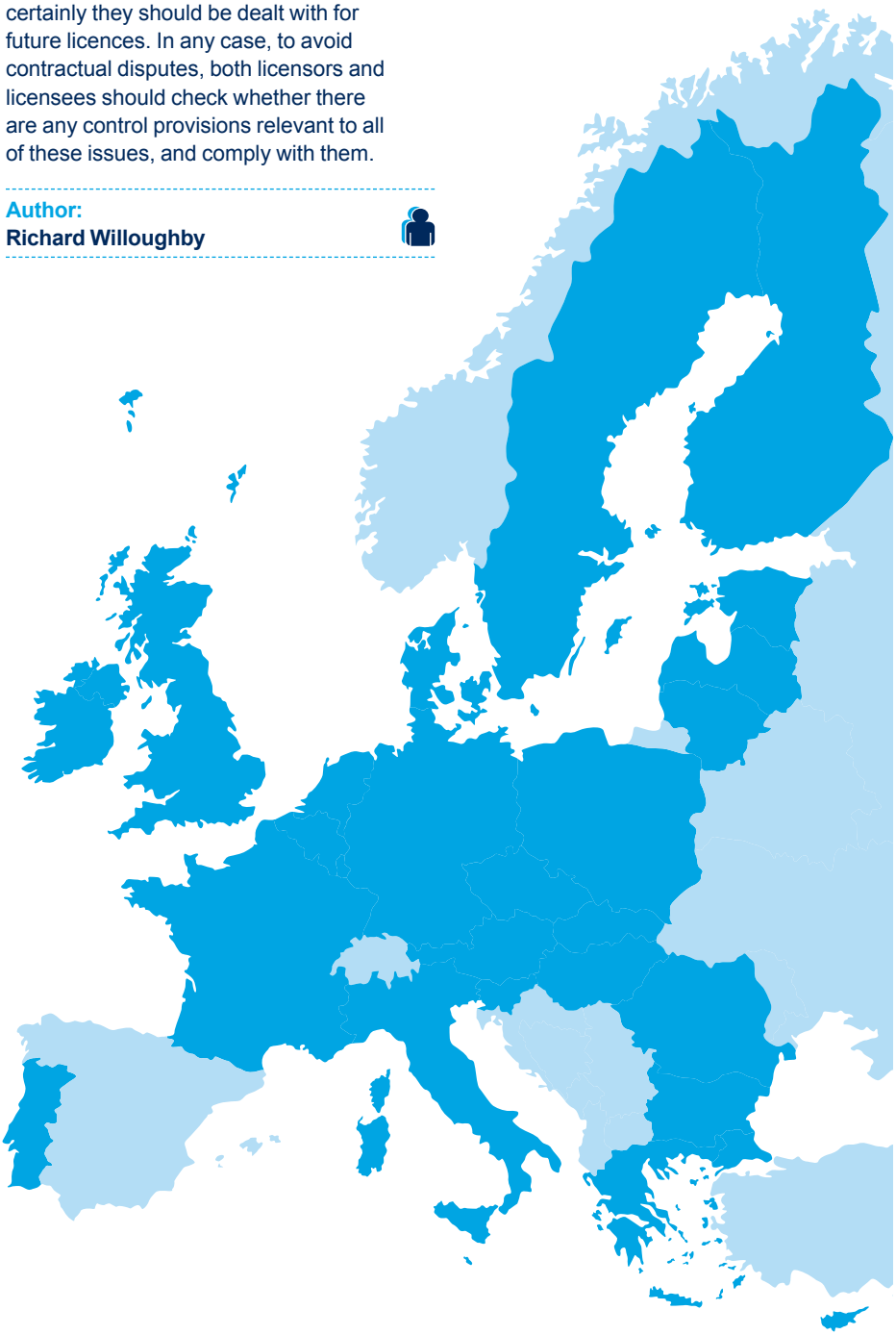
3. The UPC Agreement has a provision relating to declaratory actions whereby a proprietor or a licensee may be approached for "clearance" under a patent. Failure to respond to that approach, or a negative answer, could give rise to a declaratory action in the central division of the UPC.

What steps should I be taking now to address these issues?

It is advisable to review licences relating to pending EP applications and consider who has control over the UP option.

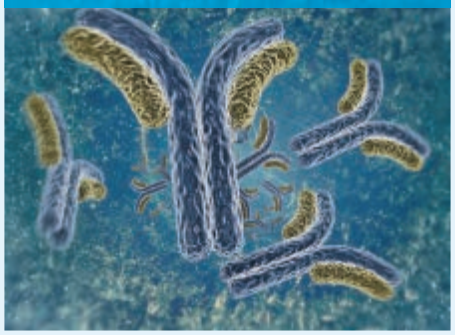
In addition, it is advisable to review licences to consider who has control over opting out decisions, litigation (including whether exclusive or non-exclusive licensees should have the right to sue in the UPC), and responses to requests for "clearance" as noted above. Most licences will have some general provisions that may apply to these circumstances but few if any will deal with them specifically. It is advisable to consider whether these situations should be specifically addressed, and certainly they should be dealt with for future licences. In any case, to avoid contractual disputes, both licensors and licensees should check whether there are any control provisions relevant to all of these issues, and comply with them.

Author:
Richard Willoughby



Powerful declaratory relief to "clear the path" available in the UK
Fujifilm v AbbVie

Arrow declarations (Fujiifilm v AbbVie)



In our February patent newsletter, we reported on a number of interim decisions in the case of Fujifilm Kyowa Kirin Biologics v AbbVie Biotechnology Limited [2017] EWHC 395 (Pat): www.dyoung.com/article-declarationsuk.

Fuji was seeking declaratory relief in the form of so-called "Arrow" declarations. These ask the court to declare that a product, which the applicant wishes to market in Europe, was obvious at the priority date of pending divisional applications. Such applications can create a block to market entry, at a time when their validity cannot be challenged. The effect of an "Arrow" declaration is to create a potential defence to infringement of those divisionals, once they grant.

Judgment in the substantive case was given on 03 March 2017. The court granted the relief sought by Fuji, finding that it served a useful commercial purpose, even though there were no UK rights involved. This is a powerful legal tool to help clear the path to market and has wide application to patent disputes in Europe. Indeed such UK court declarations may be especially useful in future in the context of the UPC.

Read our full update and commentary on this decision online at: www.dyoung.com/article-fuji395mar17

Full decision: http://dycip.com/fujivabbvie

Author:
Richard Willoughby

International IP Index
UK IP system highly rated

International IP Index rates UK IP system

The Global Intellectual Property Center of the US Chamber of Commerce has published its fifth annual 'International IP Index' on the state of IP protection around the world, entitled 'The Roots Of Innovation'.

In the 2017 report, which covers 45 economies, the UK is once again rated ahead of the key IP jurisdictions of France, Germany, Japan, South Korea and Switzerland and is rated second only to the US.

In a number of categories, including both patents and enforcement, the UK is rated number one in the world, with the expectation that the UK's withdrawal from the EU will not affect the high level of protection offered by the British IP system.

David Hirschmann, President and CEO of the Global IP Center comments: "...Countries of every region, size, and income level are increasingly investing in IP infrastructure as a tool for development, a stimulus for jobs and economic growth, and a catalyst for domestic innovation and creativity."

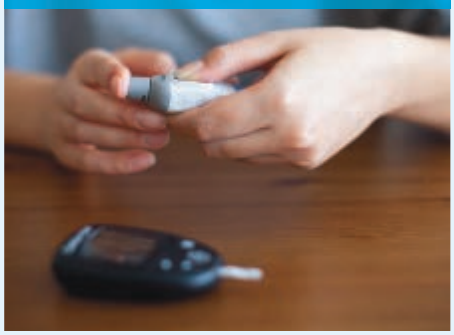
This report once again confirms that, with one of the strongest IP systems, the UK is and will remain to be an excellent place to protect all your IP rights.

Read the full report (PDF) at: http://dycip.com/usccipindex

Author:
Anton Baker

Shanks v Unilever
Outstanding benefit of employee-made inventions

Shanks v Unilever [2017] EWCA Civ 2



Professor Shanks sought to claim compensation under Section 40(1) of the UK Patents Act 1977. This legislation specifically relates to employee-made inventions from which an "outstanding benefit" can be derived for the employer. The Shanks patents related to technology that would later be used as part of blood testing kits for diabetics. Unilever generated profits of ~£24m, largely through licensing. Decisions by Arnold J and the Comptroller General, that no outstanding benefit was conferred to Unilever by the Shanks patents, were upheld in the Court of Appeal. A significant portion of the appeal centred on whether Unilever was "too big to pay". Much of Unilever's initial submissions pointed out that for a company with £billions in turnover, the value of the Shanks patents were ultimately dwarfed by the size of the company.

While Patten LJ agreed that "outstanding benefit" could not be determined by a trivial comparison between value and turnover alone, he decided that, referring to Kelly v GE Healthcare, S40(1) was designed for exceptional cases only, and that there must be an outstanding benefit to the company as a whole. The requirements of S40(1) remain an incredibly high hurdle for potential claimants.

Full update and commentary: www.dyoung.com/article-shanks

Full decision: http://dycip.com/shanksunilver

Author:
Feng Rao

And finally…

D Young & Co events
European biotech case law webinar, 16 May 2017

Registration is now open for our May European patent biotech case law webinar

Our regular European biotechnology patent case law webinar returns on Tuesday 16 May at 9am, noon and 5pm (British Summer Time).

European patent attorneys Simon O'Brien and Matthew Caines will present this essential update in European biotechnology case law, which will include the opportunity for Q&A.

Webinar registration
This is a popular event so early registration is recommended to guarantee your webinar place. Registration is now open at www.dyoung.com/events-webmay17.

Further events in the coming months include:

Future lawyer summit
04 May 2017, London, UK
D Young & Co partner and European patent, design and trade mark attorney Hanns-Juergen Grosse (London & Munich) will be attending this summit.

BIO international convention
19-22 June 2017, San Diego, US
Partner Simon O'Brien will be participating in the panel presentation 'the human microbiome - innovation and IP protection' during BIO.

www.dyoung.com/events.

Contact details

London
Munich
Southampton

T +44 (0)20 7269 8550
F +44 (0)20 7269 8555

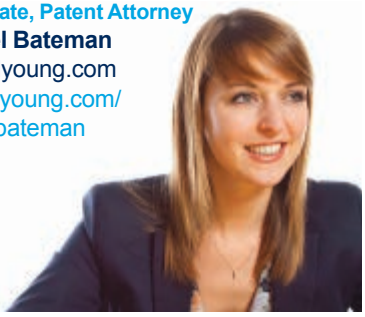
mail@dyoung.com
www.dyoung.com

Contributors

Partner, Solicitor
UP & UPC Editor
Richard Willoughby
rww@dyoung.com
www.dyoung.com/richardwilloughby

Partner, Solicitor
Antony Craggs
arc@dyoung.com
www.dyoung.com/antonycraggs

Associate, Patent Attorney
Rachel Bateman
reb@dyoung.com
www.dyoung.com/rachelbateman



Patent Attorney
Anton Baker
amb@dyoung.com
www.dyoung.com/antonbaker

Technical Assistant
Feng Rao
fxr@dyoung.com
www.dyoung.com/fengrao