



Licensors and licensees – have you discussed your UPC strategy?

The arrival of the Unified Patent Court ('UPC') and Unitary Patent has been widely welcomed, as has the news that the system is planned to go live on 1 April 2023, despite the pleasure being tinged with disappointment given that the UK is not a part of it.

Although companies have been warned many times over the years that the UPC was due to open soon and they should start their preparations, it has sometimes seemed too remote to worry about. Now, at last, it can be said that it will happen and therefore preparations must be made.

This article looks at one aspect of those preparations – one that sometimes gets overlooked – the need to review a company's European patent licences (both in and out).

Few licences will have provisions in them requiring licensors to discuss their opt-out strategy with their licensees. Therefore, the parties should discuss and agree a way forward. Indeed, it could be a discussion which might be needed with multiple licensees if a patent has been licensed in numerous territories across Europe.

What will happen and when?

The event that will fire the starting gun is the deposit by Germany of its instrument of ratification of the UPC Agreement ('UPCA'). Provided this takes place in December 2022, the UPCA will come into force on 1 April 2023 (being the first day of the fourth month after the deposit), the UPC will open for business and the two Regulations setting up the Unitary Patent will become operational.

Assuming this timetable does not slip, the Sunrise Period will start on 1 January 2023. This is a three-month period which will allow patentees to register opt-outs of their current European patents, patent applications and related supplementary protection certificates before the UPC opens for business.

What does opting out mean?

Much ink has been spilt on the benefits of opting out or remaining in the system and how this feeds into a company's litigation strategy.

In summary, opting out means that the UPC will not have jurisdiction over a company's European patent and jurisdiction will remain exclusively with the national courts. This prevents a single, centralised invalidity attack being launched before the UPC, something that many patentees worry about, particularly as the UPC is an untried forum. However, the decision to opt out is not irrevocable; it is possible to opt back into the system, which a patentee can choose to do before launching an application for a multi-territory injunction. In contrast, remaining in the system means that both the UPC and national courts have jurisdiction over a European patent for the transitional period (7 years plus a possible further 7 years from 1 April 2023).

Who can and cannot opt out?

An opt-out must be filed through the case management system and is only valid when performed by all the proprietors of a European patent and all holders of existing supplementary protection certificates. Licensees have no role to play in the opt-out process.

For exclusive licensees, this could be of particular concern. Such licensees often have the right to enforce the licensed patent given that it is their business which is directly affected if infringing products are put on the market. As can be seen from the brief description above, their ability to determine the litigation strategy of a licensed patent will be significantly affected by whether the patentee has opted out or not.

How serious is this issue for licensors and licensees?

The need to discuss and decide on an opt-out strategy is of particular importance for parties to a licence (usually an exclusive licence) which grants the licensee the ability to issue proceedings to enforce a European patent in their licensed territory. If there is no discussion and co-ordination between the patentee and licensee, future enforcement strategy could be unwittingly affected.

For example, if a European patent is not opted out and, after 1 April 2023, an exclusive licensee issues infringement proceedings in a single UPC Contracting Member State (because that is the licensed territory), the defendant could respond with a centralized invalidity attack before the UPC. The patentee's right and the right upon which the patentee's other European licensees rely is put at risk.

Alternatively, a licensee licensed in more than one Contracting Member State might choose to start an action before the UPC to enforce the patent in multiple countries. This, again, would inevitably be met with a centralised invalidity attack.

In both these examples, there is a wider knock-on effect on future litigation strategy. As noted above, where a patent has been opted out, it can be withdrawn by the patentee (but not a licensee – the licensee has no say in the matter). However, where an action has been started before the UPC, it prevents any future ability to opt out the patent. There is no distinction in the UPCA as to the types of action that block the opt-out, whether an infringement or invalidity action, whether the action is for provisional measures or is an action on the merits, whether it is concluded or not, or even whether the same parties are involved.

It should also be noted that withdrawing an opt-out is only possible if no action has been brought before a national court at any time. The wording of the UPCA indicates that it does not matter whether the national court action was started before or after the UPCA entered into force, rather it is the existence of the earlier national action which prevents the opt-out being withdrawn. As such, starting an action in a national court locks the European patent into the national court system.

The effect of a licensee's actions could therefore be far-reaching; a patentee's (or possibly another licensee's) strategy of withdrawing an opt-out to commence a multi-territory infringement action could be blocked because proceedings were started in a national court beforehand. These problems only multiply where there are numerous licensees each with the ability to bring proceedings in their own licensed territories.

Conclusion

It is likely that patentees who have licensed their European patents will opt out their patents as they seek to reduce the risk to their licensing income by avoiding a central invalidity attack. This may suit most licensees, but possibly not all as some may want to assert their licensed rights before the UPC.

Discussions regarding whether to opt out or not should therefore be had between licensors and licensees of European patents sooner rather than later so that, if the decision is taken to opt out, the patentee can do so in the Sunrise Period and before the UPC becomes operational. Such discussions should also include a review of who has the right to bring future proceedings and where, so that one party does not find that their options have been inadvertently curtailed by the actions of the other.

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