

Unified Patent Court – Public Consultation on the Rules on Court fees and recoverable costs

Introduction

The Federation represents IP intensive companies in the United Kingdom - a list of members is attached. Our member companies are extensively involved with IP in Europe and internationally. Not only do our companies own considerable numbers of IP rights, both in Europe and elsewhere, but they are affected by the activities and IP rights of competitors. They may be either plaintiffs or defendants in IP related court actions, here and elsewhere.

The consultation

On 8 May 2015, the UPC (Unified Patent Court) Preparatory Committee launched a public consultation on the fee structure for the Court. The consultation document [Rules on Court fees and recoverable costs](#) comprises two options for a revised Rule 370, a table of fees, a scale of ceilings for recoverable costs and an Explanatory Note.

Responses are to be sent electronically to the [Secretariat](#) before midnight on 31 July 2015.

IP Federation response

As a general matter, the IP Federation welcomes the opportunity to comment. It approves of much of what is proposed and limits its comments to those topics where it considers improvements can be made. It observes that the fees must provide a balanced budget in due course, and it notes the predictions for the steady state costs of the UPC after year seven. However, many underlying assumptions as to the required budget are not presented in the consultation. This makes responding more difficult.

The Federation would like to comment on the following matters:

1. Opt-out fees
2. Revocation action and DNI fees
3. Scales for value based fees
4. Deciding upon value for the purpose of fee calculation and cost recovery
5. The alternative R.370.6 proposals
6. Cost recovery
7. Method of payment of fees

1. Opt-out fees

As a matter of principle, the IP Federation opposes any fee being imposed to opt patents out of the UPC system. A number of patent owners expressed the view during negotiations leading to the UPC Agreement that they should be entitled to maintain the status quo of the existing litigation arrangements for existing EPs, and supported the introduction of the UPC on the understanding that the Article 83 arrangements would achieve that*. It was never understood by them that a fee would be payable to maintain the status quo, and it is in any event wrong in principle to require patentees to pay *not* to use the system. Moreover, the relevant part of the UPC Agreement (Article 83(3)) itself does not foresee a fee for opt-out.

The Federation understands that the fee has been set at a level of €80 on the basis that it is cost neutral, but the basis for calculation of the fee has not been explained. In any case, if the applicant is going to self-register opt-outs online, with an automated checking system, it is difficult to see the justification for any opt-out fee to cover administrative costs. The Federation understands that the UPC case management system will link to EPO databases, and that users will be able to complete an online form in order to do this. Consequently, there may be capital costs in setting up this aspect of the system, which is required in any event, for example for lodging protective letters, as well as for registration of opt-outs. However, there should be no attempt to recover capital costs through opt-out fees. If it is indeed the case that the system will be set up using an on-line form which, on completion enables registration to be automatically noted on the register, the cost per opt-out should be close to zero. Only in the event of an error (for example in the patent number resulting in a rejection from the system) should any human intervention be required. This also points to a zero fee being appropriate.

On the other hand, if there is no opt-out fee, it would relieve the Preparatory Committee of finding appropriate payment handling mechanisms specifically for opt-out fees. Otherwise the payment system would need to be able to cater for substantial payments in respect of bulk opt-outs at the outset (mainly in the sunrise period) and then smaller, per application / patent payments in the steady state. If there were no opt-out fee there would be no need to set up a payment mechanism which would operate in the sunrise period. In addition, having no opt-out fee would avoid the risk of opt-outs being registered late because of late payment or failing for non-payment.

If there is to be a fee, then acceptance of it would be enhanced by publishing the budget / fee calculation. Further, if any fee is to be levied, The IP Federation urges the Preparatory Committee to look again at the regime and consider the following points:

- The true cost of registering opt-outs, excluding capital costs.

* The IP Federation remains concerned that there remains uncertainty as to the effectiveness of the opt-out in view of comments expressed by commentators, and in particular CJEU Judge Forwood, to the effect that opting out of the exclusive jurisdiction may leave the UPC with non-exclusive jurisdiction. However, that is not an issue for this paper.

- Opting out is far from cost free in any event for patentees. They will require (as a practical matter even if not strictly required by the rules) both to ensure the correct identification of patent owners in all relevant states, and to discuss the matter with their licensees. Hence, the cumulative effect of these costs and a court fee are significant unbudgeted costs.
- There is a difference between paying an opt-out fee for a patent applied for in the first seven years of the system and paying for the existing portfolio. The IP Federation could, reluctantly, accept a fee on an ongoing basis, but to pay a fee for existing patents and applications is another matter. Cumulatively on a portfolio of (say) 5000 patent families would represent a one-off cost of €400,000 of unforeseen cost, i.e. when the patent application was first filed and the life-time cost projected for internal budgetary purposes. This is plainly a very substantial sum.
- The Federation notes that in other European institutions, there is acceptance of the principle of graduated (declining) fees for bulk applications. In particular these OHIM fees are notable in the field of registered Community design (RCDs):

Procedure	Fee
Fee for deferment of publication of an RCD	€40
Fee for deferment of publication of an RCD (2 nd to 10 th RCDs)	€20
Fee for deferment of publication of an RCD (11 th RCD onwards)	€10

The Federation urges that if a fee is charged at all, there is a similar regime with a much more modest fee applicable for bulk opt-outs or a cap. A fee structure entirely in line with the OHIM model that is with a maximum fee for bulk opt-outs of €10 would be acceptable, as would a maximum fee payable for a single application to opt out multiple patent families capped at €1000.

2. Revocation action and DNI fees

The Federation supports the idea to absolve revocation counterclaimants from any value-based fee element because in essence this is part of a defence to an infringement action. If there are multiple patents in suit, it would seem fair that there should only be a single fee for all patents, as with the originating infringement action. The fixed fee of €20,000 is perhaps a little high: it should certainly be no more than this. However, this would appear to breach Art 36.3 UPC Agreement which provides that fixed fees are to be combined with a value based fee above a defined ceiling.

Most, but not all, our members support the concept of a fixed fee without a value-based element for 'originating revocation actions' initiated by those who have not been sued for infringement, whether or not they have been threatened with such a suit. Importantly, it must not be possible to combine multiple originating revocation claims in a single action with a single fee (even if including a value-based element or not) as this will only provoke vexatious 'bulk revocations' of companies' important patents, which would also be extremely costly to the UPC system.

However, more than one of our Members believe that ‘originating revocation actions’ by those who have not been sued for infringement should attract a value-based fee (again per patent). This could be lower than the fees for an infringement action of equivalent value but the difference between infringement and revocation fees should be significantly reduced. This is because such actions can be extremely complex and time-consuming (for the Court) and can be of enormous significance to the patent owner.

The Federation notes that by contrast with revocation action fees, declarations of non-infringement (“DNI”) are proposed to attract a value-based fee. The Federation believes that because both a revocation claim and a DNI application are aimed at removing patent obstacles to bringing products to market, there should be at least some significant reduction in the difference between the two levels of fees potentially to be incurred.

3. Scales for value based fees

The Federation is concerned at the lack of transparency as to how value is to be assessed. Clear guidance is needed. Also, it is surprised at the number of categories for value-based fees, particularly given the difficulty it perceives in determining an appropriate value. Absent clear and fair Guidelines available to users in advance, the Federation would prefer much broader and many fewer categories of fee levels, so as to minimise disputes as to value. The Federation would also suggest that user groups such as itself should be able to comment further on the fee levels in the light of the Guidelines, when published; and the Preparatory Committee should be able to revisit these values in the light of such comments.

The Federation also observes that there is no relationship evidently proposed between the value ascribed and the damages claimed. This is of concern because of the inevitable temptation to value a claim low and then decide later to claim a much larger sum in damages. A better way of proceeding, therefore, would be to make the “value” instead a limit on damages claimed. This would serve a very useful purpose in allowing defendants to evaluate whether they might settle proceedings, or if not, the resources to be committed to defending the proceedings. The Federation, however, recognises that this would not reflect the value of an injunction, and suggests that this be accounted for by a separate value-based fee for an injunction. Indeed it is understood that in Germany (although not set out in any rules) the value is assessed by reference to damages (as to 20% of the total value) and 80% as to the value of the injunction. Hence, such an approach could formally be mirrored in the UPC by separate fees based on maximum damages claimed and value of the injunction if claimed. The following could be proposed:

Damages claimed	Fee
under €500,000	None
between €500,000 and €1,000,000	€1,000
between €1,000,000 and €5,000,000	€5,000
between €5,000,000 and €10,000,000	€10,000
between €10,000,000 and €30,000,000	€30,000
above €30,000,000	€50,000

Value of injunction claimed	Fee
under €500,000	None
between €500,000 and €1,000,000	€4,000
between €1,000,000 and €5,000,000	€15,000
between €5,000,000 and €10,000,000	€30,000
between €10,000,000 and €30,000,000	€80,000
above €30,000,000	€170,000

4. Deciding upon value for the purpose of fee calculation and cost recovery

The IP Federation is very concerned that there should be clear guidance on how to calculate value-based fees. Under the Federations proposal, the value would reflect a limit on damages claimed, which would not require guidance, but a value-based fee relating to an injunction would.

The Federation would like to see a very formulaic approach to calculation of the value-based fee (whether or not the Federation's proposals are accepted) so as to limit areas of dispute. Important issues to be considered in drawing up the Guidelines should include:

1. What is the remaining duration of the patent?
2. Is one assessing the turnover to be generated or the profit which might be achieved bearing in mind the large differences in profitability in different sectors?
3. Whether or not it is turnover or profit which is to be considered, is it the turnover / profit of the patentee, or that of the defendant, or of all those in the market? What if there is more than one defendant, and they are commercially unrelated parties?
4. What if there are two or more patents in suit? If these cover essentially the same subject matter, or protect the same product (e.g. divisionals), are they treated as effectively one patent? If the patents are essentially unrelated, what then? Will there be in effect a series of cumulative fees paid?
5. In the case of a patent relating to a small part of a larger product, does one consider the individual widget in isolation, or the larger product (e.g. patents for mobile telephones)?

5. The alternative R.370.6 proposals

The IP Federation first notes that both versions of the rules have sub-rule 7. This is supported so as to provide protection for smaller users of the system. The Federation believes that this provision contains protection which is strongly arguable to be sufficient for the Rules to comply with Article 36(3) UPCA, without the need for any further SME support (sub-rule 6 of either alternative).

The Federation opposes strongly the second alternative of sub-rule 6. This provides blanket support for certain types of entities regardless of their objective need for support. The Federation is especially concerned because in a system which is self-financing, the support comes from non-qualifying litigants through their fees which must in consequence be commensurately higher. If the second alternative is to be considered further, it should

include proper means testing of the entities (who may be wealthy) of those behind the entity, who may equally be wealthy, but merely using a corporate vehicle which is an “empty shell”. The Federation perceived that otherwise NPEs (non-practising entities) will use the reliefs available to avoid paying fees when they should properly be doing so.

With regard to the first alternative of sub-rule 6, the Federation broadly supports this should any additional SME support over and above sub-rule 7 be regarded as required. It notes, however, that since it is only at the interim conference that the Judge Rapporteur reviews the value based fee, that fee may well not have been paid (at least in full) before the end of the written procedure, and indeed may not have been paid if the case is settled even during the interim procedure. Hence, there is already (without the rule) an incentive to settle before the fee is adjudicated and paid anyway. In these circumstances, the incentive offered only works if the value based fee is correctly assessed and paid by the party concerned at the outset. This further points to there being no need for anything more than sub-rule 7.

If there is to be a first alternative of sub-rule 6, the Federation suggests a further category of fee rebate if the matter is settled within a short period of issuance (e.g. one month) when a higher refund (e.g. 80%) might be offered.

6. Cost recovery

The Federation has a range of points / concerns with the regime including the following.

The IP Federation suggests that all caps should exclude at least court fees, which should be recoverable in addition. In this respect, it is noted that the recoverable costs will include those fees mentioned in RR. 180, 185.7, 210, 202 and 152, as well as court fees.

The Federation notes that the fees are stated to be “per instance, per party”. There is ambiguity in the phrase “per party”. Clarity is required as to what is intended, given the very different effects and behaviours it will drive. For example, can a patentee and a licensee (whether or not separately represented) claim two sets of costs? Likewise for co-defendants to a single suit. To illustrate this, take the common case of a patentee facing multiple infringers. It would be procedurally more convenient in many cases to bring a single action against each of the defendants. However, if this limited that patentee’s costs recovery if successful, this may drive what from the Court’s perspective will be inefficient behaviours.

Further what will happen if cases started separately (e.g. central division revocation actions) are consolidated? Will a patentee which prior to consolidation could recover its costs for each action, be limited to one set of costs in consolidated proceedings if successful, and what of the position of the multiple defendants? The level of recovery of any one party in a suit involving multiple opposing parties may be not very significant as compared with actual costs, and be severely under-compensated.

It is also noted that the proposed limits are per action, not per patent. Once again, there are many situations where it is procedurally convenient for there to be a single suit against a defendant, notwithstanding that multiple patents may be in suit. Unless it is clarified that the cap is per patent in suit, the Federation is therefore rather concerned that either parties will be driven into multiple suits, or that the cap on costs recovery will be too low. This is a particular concern for the higher value cases - most especially the €30,000,000-50,000,000 category.

The above concerns are likely also to be relevant in the context of NPE actions in the UPC. The Federation is very concerned that the costs recovery system should not leave successful defendants very considerably out of pocket. If, for example, the rule is that only one set of costs may be recovered per side, regardless of the number of defendants and patents, then taking an example[†], an NPE may sue three quite separate defendants on six patents, each defendant, if successful, would be entitled to only one eighteenth of its costs as compared with a scenario where the NPE sued each defendant separately and in respect of each patent separately. If the damages were potentially very high, the NPE may decide that its own under-recovery of costs was unimportant as compared with the damages, whereas the defendants would be faced with no such counter-balancing consideration.

7. Method of payment of fees

One issue which the Consultation does not address is the method by which the Court fees will be payable. Whilst this is not strictly a matter for the Rules, the IP Federation would like to highlight the practical importance of this issue to users.

The fees range from €80 for the opt-out fee to €220,000 for the highest value-based action fee. In some cases multiple fees will be required, such as, for example, payment of opt-out fees for a number of patents owned by the same proprietor.

No indication is given in the Consultation Document how fees would be payable to the Court. The UK IPO has now indicated that the current thinking is that the only permissible way for payment of the fees will be by credit or debit card.

Most companies, large and small, and patent practices / legal practices do not hold credit or debit cards as corporate bodies and do not permit employees to use such cards other than for their own incidental expenses. The credit limits and payment limits necessary for payment for other than incidental expenses would be unacceptable and difficult to obtain.

The rules for handling of money within companies and corporate bodies has become considerably stricter over time in order to ensure compliance with audit provisions, money laundering rules, and anti-bribery rules.

[†] This example is based on a case currently before the English patent court

Payment of Court fees by credit or debit card would not be possible for most users of the Court system. Accordingly, the Preparatory Committee is requested to institute methods of payment such as direct bank transfer or, for regular users, the provision of a deposit account system where the deposit accounts may be replenished by direct bank transfer.

Conclusion

The IP Federation is of the view that:

- The opt-out fee should be substantially reduced and/or justified;
- There is no requirement for either of the alternative versions of sub-rule 6 of Rule 370; and
- The fees and cost recovery rules are in need of refinement to prevent abuses and unintended consequence as explained above. In particular, if the model of fixed fee revocation actions is adopted, the fee must be strictly per patent or else batch revocation actions will be encouraged.

IP Federation
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IP Federation members 2015

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. The CBI, although not a member, is represented on the Federation Council, and the Council is supported by a number of leading law firms which attend its meetings as observers. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

AGCO Ltd
Airbus
ARM Ltd
AstraZeneca plc
Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Caterpillar U.K. Ltd
Dyson Technology Ltd
Element Six Ltd
Eli Lilly & Co Ltd
Ericsson Limited
ExxonMobil Chemical Europe Inc.
Ford of Europe
Fujitsu Services Ltd
GE Healthcare
GKN plc
GlaxoSmithKline plc
Glory Global Solutions Ltd
Hewlett-Packard Ltd
IBM UK Ltd
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Johnson Matthey PLC
Merck Sharp & Dohme Ltd
Nokia UK Ltd
Pfizer Ltd
Philips Electronics UK Ltd
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