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Are Your Agreements Ready for the UPC?

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The long-awaited unitary patent (UP) and Unified Patent Court (UPC) system represent the most significant change to the European patent system in decades. Although there have been a few false dawns, the new system is expected to come into effect in the first half of 2023. Now is therefore the time for patent licensors, licensees, and co-owners to dust off their notes and check that their current and future agreements are UPC-ready, both in relation to current European patents and the strategy for filing patents in the future.

Opting Out European Patents

When the UPC system comes into effect all European patents will come under the jurisdiction of the UPC,¹ and would therefore be at risk of central revocation by the UPC, unless the owner of the patent opts out of such jurisdiction. The opt-out can be filed any time within the 7 years following the UPC system coming into effect and also within a “sunrise period” of 3–4 months prior to that.²

As being subject to the jurisdiction of the UPC carries disadvantages, in particular the possibility of central revocation, as well as advantages, the ability to control the opt-out is important. Under the UPC agreement the opt-out can only be exercised by the owner of the European patent, so licensees will be reliant on the owner to opt out. Where a European

patent is jointly owned, all joint owners will need to agree to opt out. This means that in any licence agreement, if a licensee wishes to opt licensed European patents out of the UPC, it would need to rely on the licensor (and other joint owners if the patent is jointly owned) submitting the requisite notice for opt-out.

Given this reliance, licensors and licensees will want to pay close attention to their rights in relation to patent enforcement in their licence agreements. There tends to be a broad range of positions on patents in licence agreements. It is not uncommon for an exclusive licensee to have responsibility and control over the prosecution, defence, and/or enforcement of the licensed patents, while a non-exclusive licensee will rarely have rights beyond possibly some input into patent strategy. Interestingly, a licensee that controls prosecution cannot opt out without the consent of the patent owners, as opting out is part of enforcement rather than prosecution, so close attention will need to be paid to the breadth of the licensee’s rights. Similarly, co-owners will need to review their rights regarding patent strategy to determine how the decision regarding opting out will be made.

Parties contemplating licensing and collaboration agreements in the future would benefit from having an agreed strategy as to the handling of European patents included in the agreement. Given that an opted-out patent can potentially be opted back into the UPC system (by withdrawing the opt-out), the parties may also wish to agree on the circumstances under which a withdrawal would take place, and who would be responsible for taking such action. An exclusive licensee (or an individual co-owner) may wish to exercise control over any such decisions and would need to ensure that the licensor (or its fellow co-owner, as the case may be) is obliged to assist it. Where the licensed patents are jointly owned, a licensee may also wish to ensure that it is able to directly (if the joint owners are the licensors), or through the licensor, require the co-owners to always consult the licensee before requesting an opt-out or comply with the licensee’s request to opt out or withdraw the opt-out (and not opt out or withdraw an opt-out without the licensee’s consent).

Filing New Patents in Europe

The UP adds a new dimension to patent strategy in Europe, as it provides an additional option for patent applicants seeking exclusivity in Europe, which in turn raises issues for licensors, licensees, and co-owners of such patents and the underlying inventions. The decision regarding what type of right to apply for will rest with the party that controls prosecution and parties will need to consider whether they need to alter their stance on control of prosecution in light of the UP.

The risk of central revocation leading to reduction or loss of royalty payments will be of concern to licensors, who may prefer an opted-out national European patent as opposed to a UP, as numerous individual national courts are likely to be slower in revoking the national patents than the UPC (which could extend the royalty term) and potentially those courts may reach different decisions. Therefore, to the extent that control of patent prosecution is in the hands of the licensee, existing licensors may wish to review their licence to ascertain whether the licensee is required to consult or seek the licensor's approval on any aspect of patent prosecution including decisions about geographical coverage.

Future licensors may wish to have express provisions requiring the licensee to seek the licensor's approval or input on any decision as to whether or not to apply for a UP. Combined patent and know-how licences with no or a smaller step-down in royalty rate for patent invalidity may become more popular in relation to UPs, although this could cause competition law difficulties. There are also other reasons beyond central revocation why a licensor may want greater control over the decision to file for a UP, such as the UP countries being broader than the territory licensed and the UP being a single asset that can't be partially assigned or left to lapse in some countries but not others, which is less flexible than a bundle of national rights which can be assigned or left to lapse individually.

Central revocation will also be of concern to a licensee wishing to avoid the risk of losing market exclusivity across all UP designated states in Europe (which would be the case if a UP were revoked). Such licensees would need to ensure that their existing licences provide for such control especially if the

licensor is responsible for prosecution of the licensed patents and applications. Future licensees would wish to ensure that their licences include provisions that would require some level of cooperation between the licensor and licensee on decisions on whether to obtain indivisible UPs or bundles of national European patents. Exclusive licensees in particular may wish to include provisions requiring their preferred approach to be followed, particularly if the licensor is controlling the patent prosecution, and step-in rights if the licensor decides to let a UP lapse at a later date.

Parties may also want to consider the input they have into the formalities of the application process. In particular, the nationality of the patent applicant will determine the law which will apply to the UP as an item of property. This may be of particular concern to co-owners, as the rights of co-owners vary in the various UPC member states. The decision as to which co-owner is to be the first listed applicant (whose nationality will normally determine which law applies) can therefore have important ramifications—although ultimately, provided that law allows the parties to regulate their respective rights by contract, co-owners are best advised to vary the default legal position anyway so that the arrangements are more suitably tailored to reflect their wishes.

UPC-aware Commercial Teams

The issues arising from the UP and the UPC are not only of concern to patent attorneys and litigators. Parties to agreements that involve licensing or co-ownership of patents and those looking to partner with others in the future will all be affected by decisions regarding patent strategy and the UP complicates those decisions.

Central revocation in particular will be a key concern, and so parties should seek to address the strategy regarding European patent opt-outs and the UP with this vulnerability, together with the benefits of the UPC system (including the opportunity of pan-European enforcement across all countries participating in the UPC, and potentially some cost savings), in mind.

1. Note however that certain European patent countries, most notably the United Kingdom and Spain, are not members of the UPC and any national validations of European patents in such countries will remain within the exclusive jurisdiction of the national courts in those jurisdictions and will not be subject to central revocation (although there is a view that the Recast Brussels I Regulation (1215/2012) could be interpreted to allow, in certain circumstances, the UPC to grant relief in

respect of infringement of those patents—the issue may in due course result in a reference to the CJEU).

2. The sunrise period will run from the date Germany deposits its ratification instrument, which will happen once the UPC's administrative committee is confident that the UPC is operational, until the first day of the fourth month following such deposit. The administrative committee is also able to extend the 7 year transition period by up to 7 more years.

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