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5 Things US Cos. Must Consider As EU Unitary Patent Nears

By **Ryan Davis**

Law360, New York (May 11, 2015, 8:52 PM ET) -- The European Union's unitary patent system is set to become a reality next year after a legal challenge to the plan was rejected last week. U.S. companies that haven't paid attention to what the new system will mean for their business need to start now, and there are five key areas to look at, attorneys say.

The Court of Justice of the European Union last week **ruled against Spain**, which has long opposed the unitary patent system and challenged the legality of the plan. The European Patent Office said in a statement the same day that the court's decision clears the way for the new system to begin operation sometime in 2016.

While European companies have been closely scrutinizing the development of the unitary patent, which will allow applicants to obtain a single patent on inventions that is enforceable throughout the EU, it has not been on the radar for many U.S. companies, but that has to change, attorneys say.

"This sets up a system whereby strong EU patents will be much more relevant than they used to be," said Charles Larsen of Ropes & Gray LLP. "Every U.S. company in a space where patents are relevant needs to take notice."

Here are some key issues for companies to consider.

Opting Out

Disputes over the new unitary patent will be decided by a new Unified Patent Court, but the court will also hear disputes over existing European patents, which are secured only in countries selected by the patent owner. Companies concerned about having their current European patents attacked in the new court and rendered invalid across the EU can choose to opt out and continue to enforce their patents only in national courts.

Opting out of the Unified Patent Court will be an option for the first seven years the court is in operation, and deciding whether to do it is one of the most important decisions companies can make while preparing for the new system, attorneys say.

Keeping existing European patents out of the new court, and eliminating the possibility of a single court ruling wiping out a patent across the EU, can be a particular concern for the pharmaceutical and biotechnology industries, said John Conroy of Fish & Richardson PC.

"The companies that are most active in the opting out process are the ones with the most valuable patents, and in the pharmaceutical and medical device areas, a single patent can be worth millions of dollars a day," he said.

According to a fee schedule announced by the court on Friday, the cost for opting out a single patent is a modest 80 euros (\$89), so the price won't be a concern for any major company, making it "purely a strategic decision," said Edward Kelly of Ropes & Gray LLP.

While concerns about the competence and effectiveness of the untested new court drove some interest in opting out, there appears to be a growing level of confidence among companies about how the court will operate, which could limit the number of opt-outs, said Wouter Pors of Bird & Bird.

He said that some companies he's spoken with are now concerned that opting out will send a signal that the owner thinks the patent is weak, spurring competitors to try to invalidate it, he said.

"There will probably be a lot of opting out, but one year ago, people thought most patent owners would opt out, and I don't think that's the view any more," Pors said.

Attacking Competitor Patents Under the Current System

Once the new system takes effect, it is expected to be more expensive to file an action to challenge the validity of patents at the Unified Patent Court than it is now to challenge them at the European Patent Office. In many cases, it may make sense for companies to identify patents owned by their competitors that they are most concerned about and challenged them before the new rules take effect.

"Companies need to be thinking in advance, 'Do I need to clear a path of competitor patents?'" Larsen said. "It's going to be cheaper to go to the EPO."

Strong patents are going to be better in Europe than they have been under the new system, he said, so companies should consider attacking competitor patents now, since the European Patent Office procedures are a known commodity.

"The EPO has a proven track record of being a robust and rigorous exercise," Larsen said.

In contrast, no one really knows how proceedings at the new Unified Patent Court will play out, Kelly said.

"We know the rules and the law of the EPO," he said. "The UPC doesn't have any law right now."

Thinking About Where to Enforce Patents

For years, the U.S. has been the most important venue for patent litigation, since a patent decision by a U.S. court could have a far more substantial business impact than a decision in any other country. With the advent of a new patent effective across the EU, Europe is poised to become an increasingly important venue, forcing companies to rethink their patent litigation strategy.

"Companies will have to decide if they want to enforce patents in the U.S., Europe or both, and they really haven't had that choice before," Kelly said.

It remains to be seen how the new court will operate in practice, but there will soon be two places, the U.S. and the EU, where the outcome of a patent case could potentially have a big enough impact to completely resolve a worldwide dispute.

"We've never had anything even comparable to a U.S. patent," Kelly said. "This is the first time there's been something as strong, or even stronger, than a U.S. patent."

Filing Strategies

Once the new system goes online, patent applicants will be able to apply for either a traditional European patent enforceable in certain countries or a unitary patent effective EU-wide, but they also have a third option, Pors said. Companies with patent applications pending now can file a divisional application that would enable them to obtain both types of patents.

Filing a divisional application would give applicants two similar but slightly different patents, one under the old system and one under the new system, which could have strategic advantages based on how the company wants to enforce them. The traditional European patent could be enforced in the national courts, while the unitary patent could be enforced in the Unified Patent Court.

"That's something people need to look at right now," Pors said.

Checking License Agreements

Now is the time to clarify language in patent license agreements to account for things that are going to change once the Unified Patent Court is up and running, Pors said. For instance, exclusive licensees are entitled to bring patent suits at the new court without the permission of the patent owner, unless the license provides otherwise.

Patent owners therefore face a risk of their licensee filing suit and the defendant countersuing to have the patent invalidated, which could lead to a decision revoking a valuable patent across the EU, he said.

"If patentees want to prevent that, they need to put it in the license," he said.

"It is also important for patent licenses to include a choice of law provision that will govern these licenses under the new system, he said. If the licensor is a US company without an establishment in Europe, unless the license specifies otherwise, licenses will be subject to German law, but most companies will likely want to specify a choice of law."

All the issues surrounding the unitary patent have been low on the agenda of most U.S. patent attorneys, who have been consumed with hot-button topics in American law, like America Invents Act reviews and the U.S. Supreme Court's Alice decisions. They may soon find more of their time dedicated to Europe, attorneys say.

The unitary patent, in the works for decades, "has been a faint silhouette on a far distant horizon that is just now coming into view for U.S. companies," Larsen said.

"It's really going to require a lot of U.S. attorneys to learn an awful lot about EU patent law," Kelly said.

--Editing by Katherine Rautenberg and Kelly Duncan.

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