The Unitary Patent Package: Twelve Reasons for Concern

The proposed Unitary Patent Package currently under discussion consists of (see Annex 1)

- a Regulation on the European patent with unitary effect (unitary patent, UP Regulation),¹
- an Agreement on a Unified Patent Court for litigation on infringements and revocation of European and unitary patents (UPCt Agreement).²

This package stands in a long tradition of proposals for patent reform in Europe. However, compared to previous approaches, the current one represents a significant step back in terms of patent law quality and legal viability. Moreover, it misses the opportunity to modernize Europe’s system of patent protection.

Our main observations are grouped under three main headings: Complexity of the regime, imbalances in the system, and lack of legal certainty for investments in innovation.³

I. The unitary patent package adds to complexity

1. Fragmentation of patent protection in the EU. Instead of consolidating patent law in Europe, the Unitary Patent Package would add to its fragmentation on both the territorial and substantive level.

a. Territorial fragmentation: The unitary patent would not cover the full territory of the Internal Market. It is restricted to EU Member States participating in enhanced cooperation. In addition, it will become operable only for those Member States which ratify the UPCt Agreement. Thirteen ratifications are required. Accordingly, not all 25 signatory States need to ratify and it is even unlikely that all will do so in the foreseeable future. From the EU perspective, this fragments the Internal Market and runs counter to the cohesion objective. From the perspective of patent holders, the lack of patent protection in major European markets (at least Italy and Spain) jeopardizes innovation there. Thus, the unitary patent would need to be flanked by national patents.

b. Substantive fragmentation: The Unitary Patent Package would create four overlapping levels of patent protection in Europe (see Annex 2; not counting utility model protection):

(1) national patents granted nationally;
(2) national patents granted by the EPO (European patents) within the system of the UPCt Agreement;
(3) national patents granted by the EPO, but without subjection to the UPCt (due to transitional opt-out, non-ratification by Member States, or for non-EU States);
(4) European patents with unitary effect.

According to the principle of optionality, all systems would coexist alongside each other.
2. **Fragmentation in the rules applicable to the unitary patent.** A patent grants a right of exclusivity. This serves to protect against infringers; it may also serve as an asset. Arts. 6 to 8 of the UP Regulation provide for a broad, albeit not complete set of rules on infringement and on its exceptions.

By contrast, as regards the unitary patent as an object of property, the UP Regulation contains only a very truncated set of rules. Basic rules, as contained in all previous proposals (transfer of right, rights *in rem*, treatment in execution and insolvency, *erga omnes* effect of restrictive contractual licensing, date of third-party effects of patent transactions), are missing. Instead, Art. 10 of the UP Regulation provides for the exclusive application of national law.

This means that to a given unitary patent only one national law would apply throughout the territories of enhanced cooperation. Yet it also means that different national laws would apply to different unitary patents. Therefore, instead of creating uniformity, a multiplicity of national laws would apply. While some reference to national law is inevitable as a matter of implementing the property rules of patents, the UP Regulation misses an opportunity to provide for a minimum of uniformity and transparency for market actors.

3. **Fragmentation of jurisprudence.** The fragmentation on the level of the substantive law is mirrored by a proliferation of courts which would be competent to interpret and apply patent law in Europe under the proposed court system (see Annex 3). Jurisdictional competences would lie with

- (1) the UPCt in respect of infringements and validity of European and unitary patents for those Member States which have ratified the UPCt Agreement;
- (2) the ECJ in respect of preliminary references from the UPCt regarding infringements of unitary patents;
- (3) national courts of EU Member States not ratifying the UPCt Agreement or not participating in enhanced cooperation and those of all non-EU EPO Contracting States regarding infringements and validity of national and European patents;
- (4) the EPO’s Boards of Appeal in administrative appeals for European patents;
- (5) national courts or administrative bodies in proceedings regarding nationally granted patents.

Under each of these alleys, similar principles of patent law might be elaborated differently, and different layers of substantive rules applied (see Annex 2). The UPCt Agreement does not provide for any method of consolidation. The Agreement simply adds an additional enforcement layer alongside the pre-existing.

II. **The unitary patent package is unbalanced**

4. **Insufficient exceptions and limitations.** The substantive rules laid down in the UP Regulation respond in no way to the modern challenges to patent law. Unlike, for example, Belgian law or the recently reformed Swiss Patent Act, the Regulation does address issues such as a general research exception or compulsory licenses for biotechnological research tools.
5. Absence of countervailing rights. The UP Regulation no longer contains rules on prior user rights and on compulsory licenses for enabling the use of dependent improvement inventions or in the public interest. This perpetuates and entrenches anti-innovative effects in patent protection. Prior user rights are not available at all. Compulsory licenses are assumed to be available under national law only, if at all (see reason 11). However; the application of 25 Member States’ divergent standards jeopardizes the unitary effect. In addition, the unavailability of Union-wide compulsory licenses at uniform conditions places third parties seeking access to patented technology at a significant disadvantage compared to the improved possibility of the unitary patent holder to enforce the patent right before one single court.

6. Risk of dysfunctional patent practices. The insufficiency of exceptions and limitations as well as the absence of countervailing rights in the UP Regulation render the unitary patent prone to “opportunistic” behaviour. For instance, patent applicants may tend to seek protection for key aspects of a technology by unitary patents while selectively relying on national patent protection for other components of the technology. This would bring the overall system of protection out of balance and may stifle broader innovation.

7. Discriminatory effects. Art. 10 of the UP Regulation, which provides for the application of one national law to the unitary patent as an object of property (see reason 2; also Annex 2), entails discriminatory effects. According to Art. 10(3) of the Regulation, patents which have been applied for by firms without a residence or place of business in one of the Member States participating in enhanced cooperation, will be subject to a foreign law, namely to German law. By contrast, patent applicants established in one of the participating States will benefit from the application of their domestic law.

8. Inherent ineffectiveness of the Unified Patent Court. The design of the UPCt (see Annex 3) is dysfunctional. This would hamper the UPCt’s effectiveness. In broad terms, these flaws can be subdivided into three groups:

1) imbalances in the scope of jurisdiction (e.g. no jurisdiction for compulsory licenses, territorial jurisdiction limited to EU Member States, differing judicial review for European and unitary patents, etc.);
2) imbalances in the division of jurisdiction among the first instance divisions (e.g. questionable effects of the compromise on bifurcation, reserved competences of the central division, etc.);
3) imbalances in the organization of the UPCt (e.g. predominantly national composition of the bench in large decentralized divisions, language regime, etc.).

All of this would likely impair the development of a homogeneous body of patent law in Europe, fail to establish a fair balance in the rights and remedies available to patent holders and third parties respectively, and open the system to continued forum shopping by plaintiffs.
III. The unitary patent package lacks legal certainty

9. Uncertain implications of the unitary effect. The shift from a unitary and autonomous EU patent right to the hitherto unknown, hybrid creature of a “European patent with unitary effect” casts doubts on the legal quality of the patent protection thereby afforded.

a. Legal nature of the unitary patent. Under the proposal, the unitary effect seems to be attached to a European patent only as an accessory feature. This obscures the legal character of the unitary patent (international law, EU law or a new *sui generis* right?). However, the unitary effect concerns the substance of the right of exclusivity. In this regard, only EU law can guarantee an autonomous and supranational character and a complete and coherent system of legal protection for individuals.

b. Multi-layered legal structure. The European patent with unitary effect is split into different layers of international law, EU law and national law. The cross effects between these layers are unclear. Examples include the reach of EU law primacy vis-à-vis the EPC or the role of national law vis-à-vis the UP Regulation. The complexity would even be reinforced should the substance of protection become hidden behind a system of legal referrals replacing Arts. 6 to 8 of the UP Regulation, as is currently discussed as a compromise formula.

10. Incorrect legal basis for the unitary patent. Art. 118(1) TFEU provides a legislative basis for the “creation of European intellectual property rights to provide uniform protection of intellectual property rights throughout the Union”. Accordingly, the provision envisages the establishment of a regime of protection which derives its substance from EU law. The Unitary Patent Package falls short of this.

a. Mismatch with the legal basis. The UP Regulation claims EU origin for the unitary patent, but disclaims EU law quality for its central features (see reason 9.a). This approach is not covered by the scope and purpose of Art. 118(1) TFEU. At the very least, the terms of the individual right granted under the UP Regulation (patentability, exclusivity, property) must be such as to enable the ECJ to exercise its judicial review. This is even more necessary since the unitary patent forms part of the rules governing the functioning of the Internal Market.

b. Evasion of the EU legislative process. Under the consistent jurisprudence of the ECJ, recourse must be had to legal bases where they are provided for in EU law. There is no legislative discretion as to what aspects of the unitary patent may be regulated in the UPCt Agreement vis-à-vis the UP Regulation. This concerns in particular the definition of the scope of exclusivity. Otherwise, the procedures and procedural safeguards provided for in the Treaties would be side-stepped and the principle of institutional balance compromised. A similar issue arises regarding the relationship between Art. 114 TFEU and the rules on infringement of the European patent in the UPCt Agreement.
11. Exclusion of compulsory licenses through EU law primacy. Contrary to recital 9a of the UP Regulation, it is questionable whether national judicial or administrative authorities might grant national compulsory licenses in respect of the unitary patent. First, there is no competence left for Member States under Arts. 2(2) and 4 TFEU, should the matter be one of shared competences at all. Second, under the principles established by consistent jurisprudence of the ECJ, national authorities cannot invalidate or detract from acts of EU law and may defer their enforcement under very limited conditions only. The UP Regulation does not provide for any such exception. Finally, any granting of national compulsory licenses would quash the unitary effect, thus running against free trade rules.

12. Persisting incompatibility of the Unified Patent Court with EU law. The UPCt Agreement does not adequately address the concerns voiced by the ECJ in its Opinion 1/09 in terms of the EU law compatibility of the preceding court model. Although the UPCt is based on the example of the Benelux Court of Justice, its features significantly differ. Suffice it to mention that, unlike that of the Benelux Court, the UPCt’s jurisdiction is not limited to preliminary references and that the UPCt is fully detached from the national legal systems (in fact replacing them). In addition, the issue of ECJ review of EPO decisions is not addressed in the proposal at all, thereby infringing the EU law principles of rule of law and of completeness of the system of judicial review.

In sum, notwithstanding the advanced political process, we believe it is indispensable to reconsider the content of the Unitary Patent Package afresh.

October 17, 2012

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Thomas Jaeger
Matthias Lamping
Hanns Ullrich
<table>
<thead>
<tr>
<th>Year</th>
<th>Substantive law proposals</th>
<th>Court system proposals</th>
</tr>
</thead>
</table>
- pre-grant and administrative procedures  
- only selective harmonization of post-grant national patent law | 1st Community Patent Convention (1976 OJ L 17, 1) (not in force)  
- national courts and ECJ (today’s EU trademark enforcement system)  
- competent for Community patents only  
- preliminary references  
- national courts remain involved |
- EPO special unit administration  
- unitary and autonomous Community patent granted by the EPO | 2nd Community Patent Convention (1989 OJ L 401, 1) (not in force)  
- Common Appeal Court (incl. litigation protocol)  
- competent for Community patents only  
- preliminary references ex national courts and direct appeals against EPO decisions  
- national courts remain involved |
- largely restatement of 1st Community Patent Convention  
- Community Intellectual Property Court  
- competent for Community patents only  
- full infringement and revocation jurisdiction, no EPO appeals, no ECJ or national court preliminary references  
- exclusive jurisdiction instead of national courts |
- Community Patent Court  
- classic EU court (Art. 257 TFEU), competent for Community patents only  
- infringement and revocation, no EPO appeals or national preliminary references  
- exclusive jurisdiction instead of national courts |
- EPO administration  
- unitary and autonomous Community patent granted by the EPO  
- comprehensive set of rules on substantive patent law |  
- no translation of European patents for States which have an official language in common with the EPO languages  
- other States may require translation of claims into their official language |
- EPO administration  
- unitary and autonomous Community patent granted by the EPO  
- comprehensive set of rules on substantive patent law |  
- no translation of European patents for States which have an official language in common with the EPO languages  
- other States may require translation of claims into their official language |
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 / 2005</td>
<td>EPLA (Draft Agreement on the establishment of a European patent litigation system) (not in force)</td>
</tr>
<tr>
<td></td>
<td>- EPO / EPO Member State initiative</td>
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<td></td>
<td>- European Patent Court of Appeal</td>
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<td></td>
<td>- European patents only</td>
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<tr>
<td></td>
<td>- two instance court, full infringement and revocation jurisdiction, no EPO appeals, limited ECJ preliminary references</td>
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<tr>
<td></td>
<td>- exclusive jurisdiction instead of national courts</td>
</tr>
<tr>
<td></td>
<td>- political breakthrough</td>
</tr>
<tr>
<td></td>
<td>- largely restatement of 2004 proposal</td>
</tr>
<tr>
<td></td>
<td>- patent published in one EPO official language plus translations of the claims into the other two EPO official languages</td>
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<tr>
<td></td>
<td>- further translations only in the case of court proceedings</td>
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<td>2010</td>
<td>Failure of negotiations over language arrangements</td>
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<tr>
<td></td>
<td>- persisting opposition by Spain and Italy</td>
</tr>
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<td></td>
<td>- recourse to enhanced cooperation</td>
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<tr>
<td></td>
<td><strong>Unitary Patent Regulation</strong> (Council Decision authorizing enhanced cooperation in the area of the creation of unitary patent protection (2011/167/EU); Proposal for a Regulation implementing enhanced cooperation in the area of the creation of unitary patent protection (COM(2011) 215 final; as last amended by the Parliament in A7-0001/2012 of 28 June 2012); and Proposal for Council Regulation implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements (COM(2011) 216 final))</td>
</tr>
<tr>
<td></td>
<td>- EPO administration</td>
</tr>
<tr>
<td></td>
<td>- European patents with an identical scope of protection for the participating EU states transformed into European patent with unitary effect <em>post grant</em></td>
</tr>
<tr>
<td></td>
<td>- only 25 participating EU states (not Italy and Spain)</td>
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<tr>
<td></td>
<td>- uncertain legal quality: unitary character, but not autonomous?</td>
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<tr>
<td>2011</td>
<td>ECJ Opinion 1/09 on EEUPCT Agreement</td>
</tr>
<tr>
<td></td>
<td>- incompatibility with EU law</td>
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<td></td>
<td>- shift to BENELUX-type Court</td>
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<tr>
<td></td>
<td>- incompatibility with EU law</td>
</tr>
<tr>
<td></td>
<td>- shift to BENELUX-type Court</td>
</tr>
<tr>
<td></td>
<td>- EU and European patents combined, but only for EU Member States</td>
</tr>
<tr>
<td></td>
<td>- two instance court, full infringement and revocation jurisdiction, no EPO appeals, limited ECJ preliminary references</td>
</tr>
<tr>
<td></td>
<td>- exclusive jurisdiction instead of national courts</td>
</tr>
</tbody>
</table>
## Annex #2: Table on Regime Fragmentation

<table>
<thead>
<tr>
<th>Patent grant</th>
<th>Revocation</th>
<th>Scope of claims</th>
<th>Scope of exclusivity</th>
<th>Exceptions</th>
<th>Exhaustion</th>
<th>Property aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Authority</strong></td>
<td><strong>Legal basis</strong></td>
<td><strong>Authority</strong></td>
<td><strong>Legal basis</strong></td>
<td><strong>Authority</strong></td>
<td><strong>Legal basis</strong></td>
<td><strong>Authority</strong></td>
</tr>
<tr>
<td>Nat'l patents (1 state)</td>
<td>Nat'l</td>
<td>Nat'l</td>
<td>Nat'l law</td>
<td>Nat'l law</td>
<td>EU law</td>
<td>Nat'l law</td>
</tr>
<tr>
<td>EPC† (38 states)</td>
<td>EPO</td>
<td>Nat'l</td>
<td>Art. 138 EPC</td>
<td>EPC</td>
<td>Nat'l law</td>
<td>Nat'l law</td>
</tr>
<tr>
<td>EPC + Court Agreement† (1 to 27 states)</td>
<td>EPO</td>
<td>Nat'l</td>
<td>Art. 138 EPC</td>
<td>EPC</td>
<td>Nat'l law</td>
<td>Nat'l</td>
</tr>
<tr>
<td>EPC + Patent Reg. + Court Agreement† (13 to 27 states)</td>
<td>EPO</td>
<td>Nat'l</td>
<td>Art. 138 EPC</td>
<td>EPC</td>
<td>Nat'l law</td>
<td>Nat'l</td>
</tr>
<tr>
<td>Benchmark Internal Market (27 states)</td>
<td>EPO</td>
<td>Nat'l</td>
<td>Art. 138 EPC</td>
<td>EPC</td>
<td>Nat'l law</td>
<td>Nat'l</td>
</tr>
</tbody>
</table>

Colors indicate which of 4 regimes is applicable: Nat’l (red) / EPO (green) / EU (purple) / Unitary patent package (brown). Black = other / not applicable.

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1. Prior user rights currently foreseen for European patents only, not for unitary patents.
2. Incl. pet. use.
3. EPC applies to non-EU states, states remaining outside the enhanced cooperation (EE + IE) and while transitional period applies according to Art. 58 (1) 2011 Court Agreement.
4. Even EU Member States not part of the enhanced cooperation for the creation of the Unitary patent may participate in the Court Agreement in relation to European patents.
5. Directly applicable or applicable upon transformation into nat’l EU law.
6. Art. 38 (3) 2011 Court Agreement: “… holders of European patents or patent applications granted or applied for prior to the date of entry into force […] shall have the possibility to opt-out from the exclusive competence of the Court.”
7. Court Agreement applies only where minimum threshold of 13 ratifications is reached (Art. 59 (1) 2011 Court Agreement), but even after entry into force, only one EPC state may be designated in an application.
8. Does an opt-out under Art. 58 (3) 2011 Court Agreement only relate to the exclusive competence of the Court, leaving the other parts of the Court Agreement (in particular Art. 14 et seq.) intact, or does it imply an opt-out from all provisions of the Court Agreement?
9. IP contract law is currently not harmonized on the EU level, but such harmonization appears beneficial de lege ferenda.
10. Patent Reg. and Court Agreement apply as a package, but only where minimum threshold of 13 ratifications is reached (Art. 59 (1) 2011 Court Agreement).
11. One nat’l regime per patent (law of the Member State of the patent holder or German law). Governs the patent statute only. Beyond patent statute: Choice of law applies.
12. EU conflicts rule
**Annex #3: Court System Illustration**

**EPO**
- Grant of European patents and European patents with unitary effect (unitary patents)
- Internal administrative appeal, essentially against refusals to grant and invalidations

**Unified Patent Court**
- First instance, central division
  - Multinational composition
  - Infringement and counterclaims for revocation, revocation actions, non-infringement, provisional measures, damages, (insofar as available) rights based on prior use, compensation for licenses
- First instance, regional and local divisions
  - Majority for national judges in large local divisions
  - No actions for revocation and isolated declaration of non-infringement, optional reference to central division for revocation counterclaims

**Unified Patent Court appeals instance**
- Multinational composition
- Three legally and two technically qualified judges
- Preliminary reference requirement
- Applicability of acte clair / acte éclairé exceptions?
- Consolidation of jurisprudence?

**… for European patents**
- Last resort

**… for unitary patents**

**ECJ**
- Prel. ref. on questions of EU law
- All questions of interpretation and application of EU law
- Application of Art. 267 TFEU proper
- I.e. from first and second instances of the UPC

**Nat’l courts of the participating EU Member States**
- Most property aspects (transfer of right, licensing, patents as securities, execution, compulsory licenses and gov’t use)
- Damages claims for breach of EU law against UPJ
- Prel. ref. on questions of EU law

**Nat’l courts of non-participating states**
- I.e. in particular all EPO third-states
- No change to national patent jurisdiction
- No consolidation of patent jurisprudence with any of the other systems
- No improvement in cross-border patent enforcement

Four separate jurisdictional systems for patents in Europe:

<table>
<thead>
<tr>
<th>System 1: EPO</th>
<th>System 2: UPCt for European patents</th>
<th>System 3: UPCt + ECJ + nat’l courts for EU patents</th>
<th>System 4: non-participating nat’l courts for European patents</th>
</tr>
</thead>
</table>

1. Questions of EU law = any question relating to the interpretation or application of primary or secondary EU legislation, general principles of EU law or fundamental rights, irrespective of the type of proceedings (infringement, revocation, licensing dispute etc.)