

<b>Title:</b> Unified Patent Court Implementation - Jurisdiction <b>IA No:</b> BISIPO006 <b>Lead department or agency:</b> Department for Business, Innovation and Skills - Intellectual Property Office <b>Other departments or agencies:</b> Ministry of Justice	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 23/10/2014		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> International		
	<b>Type of measure:</b> Secondary legislation		
<b>Contact for enquiries:</b> Katherine Evans katherine.evans@ipo.gov.uk			

<b>Summary: Intervention and Options</b>	<b>RPC Opinion: Green</b>
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Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out?	
£0m	£0m	£0m	No	N/A

**What is the problem under consideration? Why is government intervention necessary?**

The current system for obtaining and enforcing European patents is fragmented. Any litigation for a European patent takes place at a national level, rather than at European level. This means that, for example, a patentee may own a bundle of separate national patents and therefore must pursue legal proceedings in several different courts, even if the patents are essentially the same. In order to resolve this, a single court will be set up under the Unified Patent Court Agreement allowing patent disputes to be decided across Europe in a single set of proceedings. In order to give effect in national law certain changes to the Patents Act (1977) are necessary.

**What are the policy objectives and the intended effects?**

The aim is to improve the enforcement of patents across Europe, so that they can be defended in a single court rather than having to be litigated country-by-country which can cause additional cost and delay in preventing infringement. This should make it easier for businesses to exploit patent rights at a European scale.

The UK will host divisions of the UPC which should bring wider benefits by increasing the UK's reputation as a centre for litigation. There will also be benefits to innovation through the breaking down of barriers within Europe.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Option 1 - do nothing.

Option 2 - make changes necessary to give effect to the jurisdiction of the UPC in UK law.

Our preferred option is Option 2 as the benefits of the implementing UPC are expected to outweigh the costs of continuing with the fragmented system currently in place.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 7 years from entry into force of the UPC Agreement.

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> n/a	<b>Non-traded:</b> n/a	

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister: \_\_\_\_\_ Neville-Rolfe \_\_\_\_\_ Date: 18 January 2016 \_\_\_\_\_

# Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing

## FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2014	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

Description and scale of key monetised costs by 'main affected groups'

No Change

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

Description and scale of key monetised benefits by 'main affected groups'

Other key non-monetised benefits by 'main affected groups'

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	

# Summary: Analysis & Evidence

# Policy Option 2

Description: Make changes necessary to give effect to the jurisdiction of the UPC in UK law.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2014	Time Period Years 0	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised costs by 'main affected groups'

We are unable to fully monetise the costs (such as court fees) at this stage as much of the detail has yet to be negotiated by the signatory states to the UPC Agreement.

### Other key non-monetised costs by 'main affected groups'

There will be costs to businesses that experience uncertainty during the initial transition period of the UPC. Furthermore, non-pharmaceutical patent holders face the possibility of their revocation cases being heard outside of the UK.

The UPC will require contributions from Government, at least in the early stages of its existence. The exact scale of this funding will become clearer when court fees are decided.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised benefits by 'main affected groups'

We are unable to fully monetise the benefits of these changes.

### Other key non-monetised benefits by 'main affected groups'

There will be benefits to businesses who will now obtain a pan-European judgement from one court. This will result in costs savings from non-duplicated legal and court fees.

There may be an influx of cases being heard by the UPC in the UK regarding pharmaceutical patents. This could directly benefit UK lawyers if foreign litigants demand their services.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

We assume that the other required countries will also ratify the Agreement, and that we are joined by 10 other Signatory States.

## BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	N/A

## **Problem under consideration**

Currently there is no single European patent. Instead, individual national patents must be obtained separately from each national patent office. Alternatively, the European Patent Office (EPO) can grant patents in a single procedure for up to 38 European states but once granted these are treated as separate national patents (these are commonly referred to as 'bundle patents' and will be referred to as such below). This means that whilst the pre-grant process is streamlined, enforcing a patent across multiple European states is more difficult. As a national right, each patent must be defended in each separate jurisdiction, leading to duplication of court cases. This fragmented system of litigation creates difficulties because procedures around Europe differ. This means that due to diverse legal traditions outcomes of cases relating to the same patent can vary across Europe and the time taken to reach a judgment can vary also.

In summary, obtaining patent protection across Europe is costly (compared with, for example, the USA), as evidenced in IA BISIPO005. The protection is not uniform, and enforcement must be conducted separately in each country with potentially different outcomes.

## **Rationale for intervention**

The Government wants the UK to be part of a European patent system that supports growth and provides a cost effective option for innovative business that want to protect and market their inventions across Europe. This is why the UK Government signed the Unified Patent Court (UPC) Agreement along with 25 other EU Member States on 19 February 2013.

The current, fragmented system of patent protection in Europe is seen to be a barrier to some, and as such may inhibit the potential for new businesses with an interest in patenting in Europe, especially when compared with other markets of a similar size such as the US and Japan which have single court systems. One way to achieve parity with these markets is to offer a court system that people can rely upon to give judgments that are applicable across multiple states, therefore protecting their patent across a region of comparable size to the US and Japan. This measure offers a court system that reduces the need for litigating patent disputes separately in multiple states. This measure accompanies the introduction of the Unitary Patent and permits the enforcement of the Unitary Patent in a single court. However, the benefits of the UPC are not limited to users of the Unitary Patent. Organisations and individuals will continue to be able to obtain bundle patents and may benefit from the Court as any judgments from the UPC will be enforceable in all countries who are parties to the UPC Agreement. The UPC offers a means to enforce a patent across most of the EU Single Market and this may increase the perceived value of owning and enforcing patents in Europe.

## **Background on the UPC Agreement**

The UPC Agreement came about as part of the negotiations to establish a Unitary Patent system for Europe. Creating the Unitary Patent required the adoption of two EU regulations<sup>1</sup> through 'enhanced cooperation'<sup>2</sup> (establishing the concept of a Unitary Patent and the language regime).

The Agreement creates the UPC which will be a new specialist patents court common to the participating states. This court will primarily have competence to hear disputes regarding the validity and infringement of the new Unitary Patent as well as European bundle patents granted by the European Patent Office (EPO). It will also have competence over actions concerning infringement and validity of Supplementary Protection Certificates<sup>3</sup> (SPCs) for pharmaceutical and plant protection products based on European

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<sup>1</sup> Regulation (EU) No 1257/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection and Regulation (EU) No 1260/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regards to the applicable translation arrangements.

<sup>2</sup> For similar technical terms, please see the glossary in Annex A

<sup>3</sup> Supplementary Protection Certificates (SPCs) are provided for in European Union Regulations (Regulation (EC) No 469/2009 and Regulation (EC) No 1610/96) and extend the period of legal protection afforded to medicinal and plant products beyond the life of the patent relating to them for up to 5 years and 6 months.

bundle patents and Unitary Patents. The UPC will not have competence over national patent rights granted by the Intellectual Property Office (IPO) and other national patent offices. Issues relating to the property rights of a patent (whether a Unitary Patent, European bundle patent, or a GB patent) will remain within the competence of UK courts (for example claims over ownership of a patent).

In order to implement the UPC Agreement it is necessary to amend domestic law to ensure clarity over where the UPC will have competence. The Patents Act 1977 describes what aspects of patent law UK courts have competence over; this must be changed so that the UPC is given competence over the specific types of dispute outlined above. Intervention will provide patent holders and third parties with clarity over where UK courts have competence, and where the UPC will have competence. It also ensures that UK law is compatible with the Agreement.

The court will open three months after ratification of the Agreement by the UK, France, Germany and 10 other States; this is also the point at which the Unitary Patent Regulation, and accompanying translation Regulation come into force. The proposed changes to the Patents Act would also take effect from the date of entry into force of the Agreement.

## **Policy objectives**

By making the relevant changes to the Patents Act, the UK will be in compliance with the Agreement, allowing UK patent holders and business to enjoy the benefits of the UPC. The overall policy objective is to introduce a system which will enforce the Unitary Patent and also European bundle patents across the Contracting Member States which have ratified the Agreement, with the aim of reducing the complexity and uncertainty of enforcing a bundle patent multiple jurisdictions.

## **Options considered**

The options considered at this stage are:

### Option 1 – do nothing

Taking no action to reflect the changes to jurisdiction in the Patents Act prior to ratification would mean that UK law would not be in compliance with the Agreement.

This is the baseline against which other options will be evaluated.

### Option 2 – Make changes necessary to give effect to the jurisdiction of the UPC in UK law

The changes will mean a transfer of jurisdiction from the UK courts to the UPC in patent cases involving infringement and validity of European patents valid in the UK. In addition the changes will confer jurisdiction on the UPC for infringement and validity of the new Unitary Patent. The jurisdictional changes will also apply to SPCs based on European bundle patents valid in the UK and Unitary Patents.

Option 2 is the preferred option as it meets the policy objective of introducing a system which offers a less complex, pan-European enforcement of the Unitary Patent, European bundle patents and SPCs based upon them.

## **Costs and benefits of the options considered**

Since pre-consultation stage we have sought additional evidence to assist with analysis of the costs and benefits of our options.

There are some impacts which we are still unable to quantify as they are reliant on decisions being made at the Preparatory Committee for the UPC. The Preparatory Committee is made up of representatives of each of the states which are signatories of the UPC Agreement and will exist until the court is established. The Preparatory Committee will decide on the court's Rules of Procedure, the training programme for judges, and court fees, amongst other things. The Preparatory Committee has updated

its roadmap in September 2014 to reflect progress made so far, and better reflect upcoming milestones<sup>4</sup>. With regard to court fees (which will be a cost to businesses) the Preparatory Committee anticipate launching a consultation in Spring 2015.

There are, however, some impacts which we have been able to explore ourselves, which are not reliant on progress by the Preparatory Committee. We held a 12-week consultation in which we sought views on our proposals and asked people to provide evidence where possible of potential impacts on businesses; this was alongside specific questions on the draft legislation<sup>5</sup>. As part of the consultation we ran a webinar in which people were able to submit live questions to a panel which gained over 200 website hits – the majority from the UK, but also from the US, India and China showing that the subject of the UPC has international interest. We also met with stakeholders individually and held some larger meetings with a mix of attendees, in which we were able to get a sense of stakeholder opinions.

In addition, to the consultation, the IPO commissioned further research into various issues that result from the introduction of the UPC. This includes a survey based qualitative analysis into business views, "Exploring Perspectives of the Unified Patent Court and Unitary Patent Within the Business and Legal Communities"<sup>6</sup> authored by Dr Luke McDonagh, which was published in July 2014, as well as further data from a long term project examining the use of UK IP courts, "Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2014"<sup>7</sup> authored by Dr Luke McDonagh, Christian Helmers & Yassine Lefouili which is expected to be published in late 2014. In addition to our earlier analysis, evidence from this research, as well as other relevant evidence, has been used to assess the costs and benefits of the options considered.

### Option 1 - Do nothing

Whilst the UK may ratify the UPC Agreement without making changes to our national law, it is likely that our law would be inconsistent with the Agreement. This could lead to a lack of legal certainty and extra expense for businesses using or challenging patents.

The Agreement as it stands cannot come into force without UK ratification because the UK is one of the three Contracting Member States whose ratification is necessary. If the UK failed to ratify the Agreement the UPC and the Unitary Patent would not come in to being.

### Option 2

In this option, the necessary changes are made to the Patents Act to give the UPC jurisdiction over infringement and validity of European patents valid in the UK. The Government would then be in a position to ratify the Agreement. This would allow for the entry into force of the UPC and the Unitary Patent, assuming that 12 other Signatory States including France and Germany have also ratified the Agreement.

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<sup>4</sup> Roadmap of the Preparatory Committee of the Unified Patent Court, September 2014, <http://www.unified-patent-court.org/images/documents/roadmap-201409.pdf>

<sup>5</sup> Technical Review and Call for Evidence on Secondary Legislation Implementing the Agreement on a Unified Patent Court and EU Regulations Establishing the Unitary Patent, June 2014, <https://www.gov.uk/government/consultations/secondary-legislation-implementing-the-unified-patent-court>

<sup>6</sup> McDonagh, L., July 2014. Exploring Perspectives of the Unified Patent Court and Unitary Patent Within the Business and Legal Communities. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/328035/UPC\\_Study.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/328035/UPC_Study.pdf) In December 2013 a study was commissioned to examine the perspectives of the business and legal communities with regards to the UPC and UP. Dr McDonagh undertook an empirical study into the different viewpoints shared or otherwise by stakeholders in the legal and business sectors. As part of the study he conducted in-depth interviews with 26 different organisations, in order to gauge their views and concerns on the UPC and UP. The respondents were representative of a wide spectrum of business sectors, though primarily from the ICT sector and Chemicals sector as well as a wide range of differing legal view points. The study also contains a literature review on the current state of patent litigation in Europe and the UPC/UP reforms.

<sup>7</sup> McDonagh, L., Helmers, C. & Lefouili, Y. 2014 (Expected), Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2014. The aim of this research is to undertake a comprehensive evaluation regarding the effectiveness of the IPEC reforms. As part of this research they have analysed the amount of IP litigation at the IPEC. In addition they also counted the number of patent cases that were litigated at the Patents High Court (PHC). As part of the analysis used within this IA, litigants were matched to Companies House data to extract the SIC code as well as a company's registration number. The registration number was used to match the firm to FAME, which provided data on assets, sales, and employment which was used to determine whether a firm is a SME.

## Costs of Option 2

Those choosing to use the Unitary Patent will be required to use the UPC, as will those holding bundle patents after the transition period is over. Those holding GB patents will not use the UPC and instead will remain at national courts.

## Costs during transition period

During the period of transition (7 years, potentially increasing to 14) firms are able to choose whether to take a case relating to a bundle patent to a national court or to the UPC unless the proprietor has 'opted out' their bundle patent.

Owners of European patents and SPCs based upon European patents valid in the UK will have a choice to register an 'opt out' of the UPC in the first 7 years. They will be able to 'opt out' of the UPC for the lifetime of the patent/SPC, meaning that they would be considered by national courts rather than the UPC. It will also be possible to withdraw an 'opt out', meaning that litigation concerning those patents/SPCs would then go to the UPC. The transition period will be 7 years from the entry in to force of the Agreement, but there is the possibility that it could be extended for an additional 7 years. The draft Rules of Procedure currently propose that there will be a fee charged to register a patent as opted out; the level of fee has not yet been set. During this period patent owners may incur additional costs of seeking advice from patent attorneys over the best route to take for their particular patent portfolio. McDonagh (2014) noted the opt out fees as a major concern for patentees, in particular firms holding large patent portfolios.

## Cost to litigants

### *Legal fees*

At present, it is not clear how much legal and patent attorney firms will charge for services relating to the UPC. Given the potentially higher value of cases (due to the broader market a decision will cover) it is possible that legal fees may be higher than those for litigation in the UK alone. We are also unsure of the extent that the UPC may create a more competitive environment within Europe for legal practice, and whether this may drive up or down costs depending on where the legal firm is based.

The cost of patent litigation (court fees, fees for hearing witnesses, and attorney costs) under the existing system for bundled patents, in first instance proceedings, has been estimated by Harhoff (2009) at £53,000 (€64,000) per party, for a small to medium case, and £330,000 (€400,000) per party, for a larger case. These estimates, from 2000, are subject to caveats which suggest that they are very conservative numbers and likely underreport the total cost of litigation for the parties involved<sup>8</sup>. A more recent estimate of the private legal costs of undertaking litigation at the Patent High Court in McDonagh & Helmers (2013) set private costs at over £1 million for each side.<sup>9</sup> Nonetheless, the large range of costs reported reflects that the cost of attorneys is variable and depends largely on case complexity. We asked about the impact of the change in jurisdiction at consultation. Respondents from the legal sector did not indicate what impact there may be on legal fees.

### *Court fees*

The overall fee structure for the UPC has not yet been finalised by the participating Member States; however it is known that court fees will comprise a fixed element and a variable element based on the

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<sup>8</sup> Harhoff, D. (2009), "Challenges Affecting the Use and Enforcement of Intellectual Property Rights Prepared for the Forum on the Economic Value of Intellectual Property UK Minister for Higher Education and Intellectual Property London, June 10th 2009." P. 9 Published by the IPO and available at <http://www.ipo.gov.uk/ipresearch-challenges-200905.pdf>

<sup>9</sup> McDonagh, L. and Helmers, C., 2013, Patent litigation in England and Wales and the issue-based approach to costs, Civil Justice Quarterly 32

value of the claim. We anticipate there being public consultation by the Preparatory Committee on fees in 2015, before the fees are agreed by Signatory States. We will be encouraging UK stakeholders to take part in this consultation so that their opinions are considered.

The level of court fees may have a greater impact on defendants who will have no option but to pay fees to defend themselves, for example defendants in an action for patent infringement. Alongside court fees, the unsuccessful party may find that they have to cover a proportion of the successful party's costs up to a ceiling amount which is yet to be decided.

In McDonagh (2014) it was found that those surveyed thought that a value-based system of court fees may serve to act as a disincentive to those that might consider speculative litigation. Findings also showed that the majority of respondents "do not see the UPC fees issue as a major concern" due to the large private costs associated with litigation<sup>10</sup>.

### *Validity and infringement decisions across a single, larger jurisdiction*

The introduction of a single jurisdiction also means that, when a patent is found invalid, it is invalidated across the jurisdiction of the UPC. In the case of infringement, the damages sought may be linked to the market size in the territory of the patent. At present, a litigant could have mixed results across courts with the potential for different decisions to be made due to differences in law, circumstances and processes in each jurisdiction.

The outcome of proceedings under the UPC is binary, therefore although the absolute value of a decision is higher, this does not change the probabilities of any finding, it simply changes the distribution of possible outcomes. The expected value of a proceeding (whether in infringement or validity) remains the same and the aggregate effect on UK litigants is neutral. The binary nature of outcomes under the UPC may negatively impact a litigant's ability to manage their risks as, while the probability of a particular outcome will not change, the impact of both unsuccessful and successful decisions will be higher. Nonetheless, the expected value of this risk does not change.

### *Inability to use the IPEC*

Litigants may currently choose to go to the Intellectual Property Enterprise Court (IPEC)<sup>11</sup>, which deals with litigation for cases where the value of damages claimed is less than £500,000. Fees follow the same structure as other UK civil courts, but due to the lower value of cases, are commonly less expensive. This route will be removed as an option for patents that will become subject to the UPC, which may force some into a higher-cost process than currently.

Costs in the IPEC are subject to a cap. Costs orders will be made which are proportionate to the nature of the dispute and subject to a cap of no more than £50,000. The small claims track is for suitable claims in the IPEC with a value of up to £10,000.

Based on preliminary analysis of data from McDonagh, Helmers & Lefouili (2014)<sup>12</sup>, between 2007 and 2013, in the IPEC there have been an average of 6.3 cases per annum involving European patents and UK firms, with an average of 13 UK firms involved in litigation annually. Based on this we can estimate that 13 UK firms will be directly impacted by this change. 87% of IPEC cases that involved European patents also involved UK SMEs, therefore the inability to use the IPEC disproportionately affects SMEs. Consultation responses showed a concern amongst respondents that people would not be able to go to the IPEC, which is considered a relatively low cost route in the UK. The Preparatory Committee is currently considering options to mitigate the impacts on SMEs.

### *Inability to use IPO tribunal*

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<sup>10</sup> McDonagh, L., July 2014. Exploring Perspectives of the Unified Patent Court and Unitary Patent Within the Business and Legal Communities [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/328035/UPC\\_Study.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/328035/UPC_Study.pdf)

<sup>11</sup> Formerly the Patents County Court (PCC)

<sup>12</sup> McDonagh, L., Helmers, C. & Lefouili, Y. 2014 (Expected), Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2014



For those seeking a low-cost resolution in the UK there is currently the possibility of settling disputes through the Intellectual Property Office (IPO). In the UK, the Comptroller-General of Patents can decide on disputes relating to patents and, in some instances, on disputes relating to SPCs. At present, the Comptroller's powers include deciding on questions of validity/revocation and infringement for European bundle patents and SPCs based upon them. The UPC Agreement makes it clear that neither national courts nor other national authorities (such as the Comptroller) will be able to deal with those issues. By changing the law we will restrict the ability for people with EP(UK)s (not opted out) in disputes below this threshold, to use this service.

The tables below show how many decisions the IPO has issued in the past 5 years for both EP(UK)s and GB patents.

**Table 1 - Numbers of Ex Parte Decisions Issued (One party v Comptroller)**

Year	Procedural Decisions	Substantive Decisions
2013	0	57
2012	1	75
2011	6	57
2010	1	54
2009	6	38

**Table 2 - Number of Inter Partes Decisions Issued (IPO role as a Tribunal)**

Year	Procedural Decisions	Substantive Decisions
2013	12	33
2012	4	26
2011	8	30
2010	2	15
2009	1	15

However, the number of decisions involving European patents on matters which would be handled by the UPC are limited due to various different factors. The Comptroller-General of Patents does not have the power to grant injunctions or determine damages. This means that the IPO is not a desirable venue for infringement cases. Many cases heard at the IPO involve issues which will not come under the UPC's jurisdiction – such as cases concerning entitlement. Finally, the UPC will not have competence over GB patents.

The total number of cases concerning EP(UK)s which have been heard by the IPO in the past five years is shown below. The proposed changes will therefore have only a low level of impact as much of the use of this service is by people who will not be affected by the UPC.

**Table 3 - EP revocations filed before the Comptroller**

2009	2010	2011	2012	2013
0	1	3	2	1

#### *Changes to the legal effect of the IPO Opinions Service*

At present, the IPO provides an opinions service. This can be used to help resolve issues regarding the infringement or validity of a granted patent. Obtaining an opinion from the IPO is a relatively inexpensive process (an opinion costs £200) for getting a non-binding assessment of the key issues of an existing or potential patent dispute. An opinion can help parties negotiate a settlement or decide whether to proceed with full legal proceedings. An opinion is not legally binding on the parties involved and does not prevent parties from moving on to full legal proceedings in the courts or with IPO.

Responses to our consultation showed that for the most part people were supportive of the extension of the opinions service to Unitary Patents with many suggesting that the opinions service is a useful route for small businesses.

It is considered desirable for the IPO to offer opinions on Unitary Patents although, as with the service at the moment, an opinion on a unitary patent for example will not be legally binding on the parties. Over the past five years, the IPO has dealt with the following number of opinions:

**Table 4 - Opinions Issued**

Year	Opinions Issued
2013	25
2012	31
2011	23
2010	20
2009	33

As of 1 October, following the introduction of the IP Act, the Comptroller now has the power to start revocation proceedings where an opinion clearly shows that a patent is invalid. However, this will not apply to Unitary Patents and EP(UK)s that are not opted out.

#### *Potential migration of cases away from UK*

The UPC will be comprised of a Court of First Instance and a Court of Appeal (see Annex C for a diagram). The Court of First Instance will have a Central Division which will primarily deal with validity cases. The Central Division will be based in Paris and will also have two specialist sections in London and Munich. Cases will be divided between the three sites according to technology type (subject matter of the patent). This means that the London section of the Central Division will deal with validity actions in the chemical and pharmaceutical fields, including life sciences. It will also deal with infringement actions for pharmaceutical or life science patents which have transferred from local or regional divisions and from countries where there is no local or regional division. The Munich central division will cover mechanical engineering, whilst the Paris central division will deal with all other technology fields – most significantly electronics and ICT, including computing and mobile telecommunications.

The Court of First Instance will also comprise a number of local and regional divisions. A regional division may be based in a group of states who decide to jointly host their division; a local division will be based in a single state. Both local and regional divisions will deal with infringement cases irrespective of the technology of the patent.

Due to the split of technologies between the specialist divisions, it is possible that there will be a migration of cases away from the UK to the Paris or Munich central divisions. Cases that may currently come to the UK involving EU bundle patents in the field of mechanical engineering would go to Munich, with all other cases not eligible for the London Central Division going to Paris. This may potentially lead to loss of income for law firms specialising in these types of patents. However, we would expect this to be offset by pharmaceutical or life sciences cases which are currently heard in other parts of Europe coming to the UK. Migration of cases away from the UK may also lead to further costs to patenting firms. At consultation those in the ICT sector noted that there may be additional costs incurred for travel and potentially translation costs to go to the Central Division in Paris.

Cremers et al (2013)<sup>13</sup> provide analysis of the technologies involved in patent disputes in France, Germany, UK and Netherlands. The analysis of cases filed between 2000 and 2008 shows that in the UK, a large proportion of cases concern chemical and pharmaceutical patents (31% of cases). If we apply this proportion to the number of validity cases Cremers et al identify in the UK, we could assume that of the 59 validity cases in the UK between 2000 and 2008, 18 would have concerned pharmaceuticals. This would suggest that 41 cases would have been at-risk of being heard outside of the UK. This though, is offset by 228 validity cases relating to life sciences patents cases heard in Germany, France and Netherlands. Therefore the impact of cases migrating from the UK could realistically be more than offset by cases coming to UK from other European countries. More recent

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<sup>13</sup> Cremers, K., et al, 2013, *Discussion Paper No. 13-072: Patent Litigation in Europe*, (September 2013) <http://ftp.zew.de/pub/zew-docs/dp/dp13072.pdf>

research corroborates this point. Based on preliminary analysis of McDonagh, Helmers & Lefouili (2014)<sup>14</sup>, for UK court cases involving IP between 2007-2013 approximately 34 cases per annum do not involve life sciences, which we estimate would be at risk of migration outside of the UK.

This also assumes that UPC judges will bifurcate cases (bifurcation means that a patent case is split – with issues of validity and infringement being heard separately), however the Rules of Procedure show that this is dependent on the judge's discretion and so will not necessarily apply. If cases are not bifurcated, we would expect to see cases that are currently heard in the UK go to the UK local division, meaning that overall the number of cases heard in the UK may not be substantially impacted.

The economic impact of cases migrating from the UK to Europe may be mitigated if the parties involved in these cases retain the services of UK lawyers. If this is observed then lawyers incomes would remain roughly the same, although they would face higher costs from travel which we would expect to be passed onto their clients.

### *Cost to Government*

The eventual aim is for the UPC to be self-funding from court fees to cover costs. However, at least initially, this will not be possible and there will be a significant shortfall until the Court receives enough income from fees to balance its costs. This shortfall will be covered by contributions from the participating Member States during a transition period of 7 years from the date of entry into force of the Agreement. The costs to be covered by Member State contributions will comprise primarily salaries for judges and other staff, staff training, legal aid, administration costs, and facilities costs for the Court of Appeal and Registry. After the initial 7 year period, if the shortfall continues, then contributions have to be made by participating Member States in accordance with the scale for the distribution of annual renewal fees for Unitary Patents. Based on a number of assumptions, the Financial Aspects Working Group of the UPC has provisionally estimated the UPC central budget to be approximately €33.5 million per annum, after the transitional phase<sup>15</sup>. We are not yet able to accurately estimate the size of the UK contribution as the exact costs and the formula for calculating Member State contributions are still to be decided by the participating Member States. It is expected that these details will be finalised during 2014.

Work has begun on estimating the likely costs to the UK of the UPC, however until further details are known, such as the level of court fees and salaries, it is difficult to predict the level of contribution that will be required from the UK during the transition period.

In addition to contributing to the central budget of the Court, the host state is expected to pay the facilities costs of hosting divisions of the Court. As already stated, the UK will host part of the Central Division of the UPC that will deal with validity cases in the field of chemistry (including pharmaceuticals) and life sciences. It is also assumed that the UK will host at least one local division that will deal with infringement actions in all fields of technology. Facilities costs associated will likely include the cost of the premises (i.e. court rooms), IT & video-conferencing equipment, and interpretation facilities. In addition, the Government will bear the cost of the administrative staff required to operate the division during the transition period of 7 years from the date of entry into force of the Agreement. We will be better able to estimate these costs once we know how many divisions will be hosted in the UK, where the court rooms will be sited and once IT systems have been procured.

### *Impact on Ministry of Justice/HMCTS*

A detailed explanation of the possible impacts on HMCTS is covered in the accompanying Justice Impact Test, this can be found in Annex B.

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<sup>14</sup> McDonagh, L., Helmers, C. & Lefouili, Y. 2014 (Expected), Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2014

<sup>15</sup> This cost estimate has been prepared by the Financial Aspects Working Group of the UPC based on modelling and assumptions. It is a preliminary estimate that has not been agreed to by the Prep. Committee and is therefore subject to change.

## **Benefits of Option 2**

### *Lack of duplication*

One of the features of the current system that demonstrates the relative difficulties of litigating in Europe compared to that of other jurisdictions of a similar market size – such as the US or Japan – is that some disputes over the same patents are litigated in multiple jurisdictions. For example, Cremers, et al (2013) report that:

“In UK and the Netherlands we find a relatively high number of cases that are litigated in several jurisdictions (26% and 15% of all cases litigated in the UK and the Netherlands respectively).”

The report also suggests that those cases which are duplicated are likely to be “more important” and also “more resource-intensive”.<sup>16</sup>

Under the current system, legal proceedings for the revocation of a European patent could take place in several countries. When the UPC starts operations, patents granted by the EPO will be subject to a single system of litigation covering all of the territories that the patent covers. This reduces the need for duplicated litigation.

### *Lack of duplication - Legal fees*

The largest cost to litigants of going to court – aside from potentially damages – is the cost of legal fees. In the UK, it is common for the successful party to be paid some or all of their costs by the losing party. Although many reach a private settlement after the decision on the case, sometimes the case will go to a costs hearing – meaning that these costs are then made public. Helmers and McDonagh (2012) find that, “Most cases that ended with a judgment, and for which we have data, report total costs in the region between £1million and £6million.”<sup>17</sup>

Helmers and McDonagh acknowledge that the level of costs in the UK is generally considered to be higher than in other European countries. The prospect of only incurring such legal fees once, rather than in multiple States will offer claimants and defendants savings.

### *Lack of duplication - Court fees*

Court fees are generally a less significant burden than legal fees for users. The level of court fees varies across different European jurisdictions.

In the UK, civil courts charge variable fees according to the value of the claim or the complexity of the case<sup>18</sup>. Court fees in other countries differ, for instance, France and Luxembourg operate on a no-fee basis. Currently, the most popular countries for validation of a bundle patent are Germany, France and the UK. The majority, nearly 90%, of bundle patents are validated in the UK<sup>19</sup>. For UK-based applicants for bundle patents Germany, France, the UK and the Netherlands are the most popular countries for

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<sup>16</sup> Cremers, K., et al, 2013, *Discussion Paper No. 13-072: Patent Litigation in Europe*, (September 2013) <http://ftp.zew.de/pub/zew-docs/dp/dp13072.pdf>

<sup>17</sup> Helmers, C. and McDonagh, L., 2012, “*Patent Litigation in the UK*”, LSE Law, Society and Economy Working Papers 12/2012, London School of Economics and Political Science, Law Department, (available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2154939](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154939))

<sup>18</sup> For example, fees for making a money claim depend on the amount claimed, the lowest money claims (up to £300) incur a charge of £35, whereas for the highest money claims (over £300,000) the fee is £1670. A separate hearing fee of £1090 would also be charged, along with some administrative charges (court fees can be found at <http://hmctsformfinder.justice.gov.uk/courtfinder/forms/ex050-eng.pdf>). If further proceedings are required, for example for a costs hearing or for appeal, there are additional fees. The Ministry of Justice is currently reviewing court fees (<https://consult.justice.gov.uk/digital-communications/court-fees-proposals-for-reform>) so these figures may change.

<sup>19</sup> Internal IPO estimates. This based on EPO statistics on patents in force. For patents that were filled in 2007, in the UK 32,514 European patents came into force, whereas in Germany 35,280 patents came into force. Using the assumption that for all European Patents that come into force, they come into force in Germany, we can estimate that 92% of those patents come into force in the UK. 2007 data is used to avoid any potential impacts upon the data from EPO backlogs on more recent filing years.

validation<sup>20</sup>. Therefore, it is likely that UK companies would litigate in these countries as well as the UK. We cannot say how litigation in these four states may compare to potential UPC court fees until UPC court fees are decided.

Nonetheless, we can provide some direct comparisons of current court fees across Europe. As a point of reference to demonstrate the variety in level of court fee in different countries, Table 5 from a study conducted by the EU Commission DG MARKT (2011)<sup>21</sup> provides a comparison of fees where the value of a dispute is approximately €100,000. This is not necessarily a typical value for patent cases, and is purely intended to illustrate the different court fee levels in European countries.

**Table 5 – Comparison of court fees across a selection of European countries**

Country	Value of dispute (€)	Fee (€)	Comments
Austria	72,670 to 145,350	2,518	1st Instance fee
Germany	110,000	856	
Italy	52,000 – 260,000	500	
Lithuania	100,000	1,000	Fee = 1% of value
Slovakia	100,000	6,000	Fee = 6% of value
UK	100,000 (£83,241.01)	704	
Netherlands	100,000	1,745	
France	N/A	0	No fees for patent litigation.
Luxembourg	N/A	0	No fees for patent litigation.

*Judgments that give confidence, consistency and certainty for court users*

One of the inefficiencies of the current system is that due to the different legal traditions in Europe there can be different outcomes to cases concerning the same patent in different countries. An infringement may be found in one country, but the validity of the patent may be called into question elsewhere. In some countries, it may be more likely that the patent may be amended than in others where it may simply be revoked. Research by Cremers et al (2013)<sup>22</sup> finds inconsistency in outcomes of cases between various jurisdictions. For example, the most likely outcome of a case decided by a judge in France is ‘no infringement’ whereas UK courts are most likely to revoke disputed patents.

Another feature of the fragmented system of enforcement is the variation in the length of time it takes for a patent case to be heard in different European countries, Cremers et al (2013)<sup>23</sup> show:

“...the median duration of an infringement case is shortest in Germany (9.2 months), followed by the Netherlands (9.8 months), and the UK (11 months). Infringement cases take a lot longer in France (19.8 months). Invalidity actions take a lot longer to decide in Germany (15 months) than in the UK (11.2 months) and the Netherlands (11.4 months). Again, invalidity cases in France take significantly longer (19.8 months) than in any other jurisdiction.”

This means that litigating in different jurisdictions in Europe creates uncertainty over outcome, time spent waiting for judgments in different jurisdictions and the expense of both court fees and legal fees. A key benefit for users of the UPC will be that a decision reached regarding a Unitary Patent will be enforceable across all Signatory States. Similarly, decisions relating to EU bundle patents (that are not opted out) will be enforceable across all Signatory States in which they are valid. A single court, with a harmonised set of Rules of Procedure provides confidence that a judgment made in one division of the Court would be consistent with the outcome if the case were heard in a different division instead. The

<sup>20</sup> Data from internal IPO analysis of PATSTAT data of UK based applicants for bundle patents in the 25 member states from 1980 to 2011.

<sup>21</sup> DG Internal Market and Services, 2011, Study on the Caseload and financing of the Unified Patent Court

<sup>22</sup> Cremers, K., et al, 2013, *Discussion Paper No. 13-072: Patent Litigation in Europe*, (September 2013) <http://ftp.zew.de/pub/zew-docs/dp/dp13072.pdf>

<sup>23</sup> Cremers, K., et al, 2013, *Discussion Paper No. 13-072: Patent Litigation in Europe*, (September 2013) <http://ftp.zew.de/pub/zew-docs/dp/dp13072.pdf>

UPC will bring Europe closer to a harmonised single market for settling patent disputes and offer greater consistency and certainty for those using the patent system in Europe.

Currently, whilst patents are granted by the EPO against the same criteria, when they are taken to national courts the slight differences in legal tradition and interpretation of national laws mean that verdicts on infringement or validity of the same patents are not always consistent. For example there is potential for a patent to be found valid in one State, but not valid in another, or subject to amendments somewhere else. The UPC offers the benefit of having a single judgement valid in multiple states leading to a reduction in the variation of outcomes experienced in the current system. This, coupled with EU-wide relief, is a significant benefit to those involved who desire certainty. The UPC offers both a court of first instance and a Court of Appeal. The Appeals process will also guarantee a further level of confidence in the rulings of the UPC.

#### Alternative Dispute Resolution (ADR) methods on offer to users

The UPC Agreement establishes a centre for mediation and arbitration with seats in Ljubljana and Lisbon (found in Article 35 of the Agreement). A patent may not be revoked or limited in mediation and arbitration proceedings of the UPC, but the centre will offer an alternative route to litigation in other scenarios. The Agreement and Rules of Procedure also detail what takes place during written, interim and oral procedures and specifies that at the interim stage the judge should explore options for mediation or arbitration with the parties. Mediation offers parties a non-binding route to reach an agreement on how to proceed with their dispute, whilst arbitration is generally legally binding and enforceable in the courts.

ADR is generally seen to be a more cost effective option for parties than going to court. Ministry of Justice guidance says that mediation can be a “flexible, speedy and cost effective way” to resolve disputes<sup>24</sup>. In 2008, the Commission Communication on an Industrial Property Rights Strategy for Europe recommended that ADR be considered due to the benefits that they can bring to SMEs:

“Alternative dispute resolution (ADR) mechanisms, particularly mediation, can complement the judicial system and be a viable alternative both for SMEs and larger companies if they are speedy, reliable and cost-effective.”<sup>25</sup>

It is likely that the centre for mediation and arbitration will provide parties with a low cost route to resolve disputes. This is not specifically targeted at SMEs as the route is available to all, but it may be of benefit to them.

It is likely that Ljubljana and Lisbon will host administrative centres for mediation and arbitration and that those seeking ADR will not be required to visit the centres – instead we expect there to be flexibility in the way that mediation and arbitration is run.

The Preparatory Committee for the UPC has not yet agreed the rules for mediation and arbitration.

#### Benefits of hosting the Central Division in London

The London-based Central Division will deal with validity actions relating to all EU bundle patents and Unitary Patents in the pharmaceuticals and life-sciences sectors as well as SPCs based on those patents. The pharmaceutical sector is one of great importance to the UK. HM Government (2012)<sup>26</sup> report that this technology sector has a turnover of over £30 billion and employs almost 70,000 people in the UK. It is thought that having a specialised division of the UPC based in London will be a significant benefit to this relatively strong UK technological centre.

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<sup>24</sup> Mediation & alternatives to court (June 2014) <http://www.justice.gov.uk/courts/mediation>

<sup>25</sup> Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, An Industrial Property Rights Strategy for Europe COM(2008) 465 final, of July 16, 2008, [http://ec.europa.eu/internal\\_market/indprop/docs/rights/communication\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/rights/communication_en.pdf)

<sup>26</sup> Strength and Opportunity 2012 The landscape of the medical technology, medical biotechnology, industrial biotechnology and pharmaceutical sectors in the UK (December 2012) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/36736/12-p90-strength-and-opportunity-2012.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/36736/12-p90-strength-and-opportunity-2012.pdf)

Cases relating to SPCs which are based on Unitary Patents or European bundle patents would be heard by the UK central division when involving revocation and, as outlined above, sometimes infringement. This should mean the retention of business for UK law firms and possibly additional cases.

The British legal sector is a significant contributor to the UK economy. According to the joint Ministry of Justice and UK Trade and Investment report published in May 2011, "Plan for Growth: Promoting the UK's Legal Services Sector" legal services generated approximately "£23.1 billion or 1.8% of the UK's gross domestic product in 2009 and constituted £3.2 billion in exports"<sup>27</sup>. A recent estimate of current revenue for UK legal firms as a result of patent litigation was provided in a report commissioned by the Intellectual Property Lawyers' Association (IPLA) in May 2012 where it was estimated that total fee income in 2011 was £166 million<sup>28</sup>.

We anticipate that the UK Central Division will hear revocation cases concerning pharmaceuticals and life sciences that currently do not come to UK courts and do not involve UK claimants or defendants. This will bring benefits to UK legal firms as they are likely to receive additional business. The overall benefit of this to UK GDP depends on whether users of UK law firms are from outside the UK and paying for litigation using funds from outside the UK. If a company litigating in a UK division of the UPC pays their legal team from their UK budget this would not represent a benefit to UK GDP. Where UK-based companies use UK-based lawyers this is simply a transfer of costs so would be treated as no net cost or benefit to overall UK GDP.

One respondent to our consultation said: "[we] commend the decision to have a central division in London. This affects not just life sciences, but chemistry and human necessities at large, including many fields where litigation is common. This will add to the attractions of London as a venue, with consequent benefits to the UK economy"<sup>29</sup>.

There will be some revocation cases which are dealt with in UK courts at the moment that do not concern life sciences, this means that in future these cases would be heard in either Paris or Munich. This may represent a loss of some business for UK legal firms.

Evidence from Cremers et al (2013)<sup>30</sup> suggests that the split of specialist technologies of the Central Divisions reflects the spread of the types of cases going through the national courts at present;

"The most striking difference is the share of cases involving chemical/pharmaceutical patents heard by the PHC [Patents High Court] in the UK and the regional courts in Germany (31% compared to 19%). The share of patents in mechanical engineering is relatively large for Germany (33%) and the Netherlands (38%)".

As discussed earlier, this suggests that potentially between 2000 and 2008 228 cases held in Germany, France and Netherlands dealt with validity of patents in life-sciences sector. Cremers et al go on to suggest that more recently, the spread of cases heard in the UK may be shifting as 2012 showed a greater proportion of cases relating to patents in the ICT sector which under the UPC would go to the Paris division.

The Central Divisions will also handle infringement cases from contracting states that do not have their own local division and are not part of a regional division.

### *Benefits of hosting a local division*

We anticipate that there will be a transfer in caseload from UK courts to the UPC (for cases concerning infringement, which would be heard in a local division), and so it is less likely that this would bring *new*

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<sup>27</sup> Plan for Growth: Promoting the UK's Legal Services Sector <http://www.justice.gov.uk/downloads/publications/corporate-reports/MoJ/legal-services-action-plan.pdf>

<sup>28</sup> Economic Impact of Alternative Locations for the Central Division of the Unified Patent Court (May 2012), FTI Consulting, <http://www.citysolicitors.org.uk/attachments/article/115/20121019-UPC-location-report-version-for-publication-30-May-2012.pdf>

<sup>29</sup> A review of responses will be made in the Government Response to the Consultation (publication TBC)

<sup>30</sup> Based on cases heard between 2000 and 2008 - Cremers, K., et al, 2013, *Discussion Paper No. 13-072: Patent Litigation in Europe*, (September 2013) <http://ftp.zew.de/pub/zew-docs/dp/dp13072.pdf>

business to the UK legal sector. Therefore, we would not expect to see any loss of income for the UK legal sector.

Responses to the consultation showed consensus that the UK should host at least one local division. Many felt there may be opportunities to host an additional local division, or that a division may be able to hear cases in different parts of the UK if needed. Many commented that there exists a lot of legal expertise in the patent field within the UK. Some cited reasons for the importance of a local division as due to providing access to justice for litigants based in the UK, whilst others felt that not having a UK-based local division could harm the UK legal sector. These comments reinforce our view that, for those who are defendants in the UK, the local division is important, because if an infringing action is alleged to have taken place in the UK the case would be heard in the UK rather than overseas. Whilst this may not immediately suggest it is a benefit (especially as we cannot describe the level of fees as yet) it does mean that defendants based in the UK have a local court that can be used, rather than needing to use a court overseas.

There is a risk that those alleged to have infringed a patent in multiple UPC states will have to travel to a Court of First Instance that is not in the UK to defend themselves, possibly incurring travel costs. However, it is fair to assume that if the alleged infringement were taking place in multiple states under the current system, the defendant would still be required to travel abroad to a court in a different jurisdiction.

### Reduced translation costs

There may be some cost saving to UK businesses from a reduction in the need for the services of translators. This is due to the fact that the need to litigate in multiple national courts - which is generally conducted in the local language - is reduced in the UPC where the case is only litigated once. This could be offset by those UK businesses party to litigation in divisions of the court outside of the UK, for example in either Germany or France (in validity cases at the Central Division); or elsewhere in Europe for infringement cases (at a local or regional division).

We know that at least one regional division has decided that all cases will be in English (this is the region made up of Sweden, Estonia, Latvia and Lithuania), it is possible that others may choose to use English as an optional language for the court.

## **Wider impacts**

### *Impact on Innovation*

Patents offer a time limited exclusive right to commercialise an innovation, giving firms the opportunity to appropriate the returns from their investments in innovation. The potential for these higher financial returns incentivises firms to innovate. The introduction of the Unified Patent Court and the Unitary Patent is expected to increase this incentive by providing a more streamlined and cost effective method of obtaining Europe-wide patent protection, for those that want to protect their inventions across the Single Market.

The introduction of the UPC is expected to decrease the cost of enforcing patent rights across the UPC signatory states through reducing the need to litigate in multiple countries. As a result, the costs associated with enforcing a firm's patented innovation should decrease, resulting in decreased costs associated with innovation, which again could result in increased investment in innovation.

The UPC and Unitary Patent will create a single market for patents across the participating states. By reducing internal trade barriers there may be inward investment into Europe which could stimulate more research and development within the UK.

Overall the impacts to innovation of this policy are expected to be long term and very uncertain, but long term benefits to innovation are expected. In the short term, direct impacts on innovation in the UK may



be small. No change in the level of patenting (aside from current trends) is anticipated in the UK because the vast majority, 90% based on internal IPO estimates<sup>31</sup>, of European bundle patents are validated in the UK already.

### *Impact on SMEs and micro-entities*

Intellectual Property applies to all companies irrespective of their size, and is an optional right for businesses to hold. The UPC and Unitary Patent are available for SMEs to use. There is no micro-entity exemption for this measure. Estimates based on data from McDonagh, Helmers & Lefouili (2014)<sup>32</sup> state that at present UK SMEs are involved in approximately 35% of all UK European patent cases.

There are discussions at international level over the fee structure for SMEs. Article 36 of the Agreement makes reference to finding “the right balance” between “fair access to justice” and “the objective of a self-financing Court with balanced finances”<sup>33</sup>. At the moment it is unclear how this will be interpreted, but it could mean lower fees for SMEs. It is also envisaged that there will be some form of assistance available through the court’s legal aid budget – this will be limited to natural persons, so may be relevant to micro-entities.

As discussed above, there will also be routes for Alternative Dispute Resolution, these would be open to all users of the court and may offer SMEs a more affordable means of resolving disputes.

We anticipate that guidance will also be made available to SMEs which will explain the role of the UPC and court procedures. The IPO will provide guidance tailored to UK users.

### **Risks and assumptions**

The proposed changes to the Patents Act on jurisdiction will only come into effect when the Unified Patent Court Agreement comes into force. This requires UK ratification. The changes are therefore proposed based on the assumption that the UK will ratify the agreement.

The UPC will open three months after the UK, France and Germany, plus ten other states have ratified. This IA makes the assumption that the sufficient states will ratify for the Agreement to come into force.

It is possible that the combination of countries will have a bearing on whether holders of European bundle patents choose to opt out, especially depending on the value of the market in these states. So far, Austria, France, Belgium, Sweden and Denmark have ratified the Agreement, so with Germany and the UK as trigger states, this leaves only 6 unknown countries before the UPC is established.

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<sup>31</sup> Internal IPO estimates. This based on EPO statistics on patents in force. For patents that were filled in 2007, in the UK 32,514 European patents came into force, whereas in Germany 35,280 patents came into force. Using the assumption that for all European Patents that come into force, they come into force in Germany, we can estimate that 92% of those patents come into force in the UK. 2007 data is used to avoid any potential impacts upon the data from EPO backlogs on more recent filling years.

<sup>32</sup> McDonagh, L., Helmers, C. & Lefouili, Y. 2014 (Expected), Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2014

<sup>33</sup> Agreement on a Unified Patent Court (Official Journal of the European Union) (2013/C 175/01) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:175:0001:0040:EN:PDF>

## Summary and preferred option

Table 6 below sets out the costs and benefits to the main parties. It should be noted that there are expected to be running costs initially for the Government, but the UPC is envisioned to be self-financing in the long-term.

**Table 6 – Summary of costs and benefits on main parties**

	<b>Benefit</b>	<b>Cost</b>
<b>Businesses</b>	<p>Only need to go to court once. Savings in terms of reduced duplicated court, legal and translation fees.</p> <p>Once the court is established there will be certainty in its decisions.</p>	<p>Uncertainty over court and legal fees under UPC.</p> <p>Uncertainty during transition period.</p>
<b>Legal Services</b>	<p>Potential for more foreign litigants using UK legal services.</p>	<p>Potential for cases that leave UK to stop using UK lawyers, or increased travel costs if services are retained.</p>
<b>Translators</b>	<p>Potential for new business if assisting those UK businesses that now have case heard in another country.</p>	<p>Less business as the need to litigate in multiple courts - always in the local language - falls.</p>

The preferred option is Option 2. By making changes to the Patents Act, we can ensure that it is clear on the face of the law that the UPC has competence over Unitary Patents and European bundle patents and SPCs based upon them. This will pave the way for UK ratification of the UPC Agreement which is essential for the new system to come into force thus meeting the policy objective of offering more streamlined pan-European enforcement of patent rights.

As noted, during the transition period there is choice over whether to take part in the system. During transition, owners of bundle patents and SPCs based upon them will have the opportunity to choose whether to use the UPC or whether to litigate in domestic courts. They will also have the ability to opt out their patent or SPC based upon the patent for its lifetime from the UPC's jurisdiction.

The UPC offers litigants in patent cases the chance to resolve a dispute in a single court, and will give decisions which are enforceable in multiple contracting states. This will mean that users of the UPC will not face the costs currently required if litigating in multiple national court systems. Going to the UPC will also mean that users do not have to navigate multiple, differing, court systems which may give different judgments and take different lengths of time to reach decisions. Once the UPC is fully established it will instead provide consistent judgments across its jurisdiction (based on uniform training of judges and a single set of rule of procedure), it will develop its own case law through referrals to the UPC's own Court of Appeal.

### **Direct Costs and Benefits to Business Calculations (following OITO methodology)**

This policy is not in scope of One In Two Out. The changes that will be made to the legislation will implement an International Agreement and the associated EU Regulations. The changes we are proposing will only come into effect at the same time as the Agreement and Regulations come into force. The proposed changes therefore do not implement the Regulation early and do not go beyond the minimum requirements of the Agreement and Regulations.

The terms of the Regulations (Regulation (EU) No 1257/2012 and No 1260/2012) mean that they will only come into effect when 13 Signatory States have ratified the Agreement. The UK is one of three Signatory States which must ratify the Agreement in order for it to come into effect.

The proposed changes to the Patents Act cover only what is necessary. The changes we propose will ensure that the UPC is given competence only in the specific circumstances outlined in the Agreement and that jurisdiction of the UPC is recognised by UK courts, ensuring seamless enforcement of judgments. We have also ensured that treatment of the transitional provisions is only what is necessary to show in UK law how patents during this period should be treated.

Therefore, in summary, given that the proposed changes implement an International agreement and EU regulations, and in doing so, do not lead to early implementation and do not go beyond minimum requirements, the proposed changes are outside the scope of One in Two Out.

### **Evaluation**

The UPC Agreement will be reviewed after 7 years, or 2000 cases (whichever is first). As set out in Article 87 of the Agreement there will be a broad consultation with users about the functioning of the UPC. Depending on the outcomes of this review, the details of the Agreement may be reconsidered by the Contracting Member States of the Agreement within the governing body of the Court. Electronic filing is expected to be the norm for the UPC and this should support data collection and availability for evaluation purposes.

## **Annex A – Glossary**

Glossary of terms:

### **Bifurcation**

The questions of infringement and validity are separated and decided in separate actions.

### **Bundle patent**

One of the national patents created following the grant of a European patent in the current European patent system – one bundle patent for each country designated by the applicant. In UK patent law, this is referred to as a European patent (UK).

### **Claim**

A statement in a patent specification which legally defines the scope of protection for that patent – the area in which third parties cannot operate without infringing the patent.

### **Comptroller-General of Patents (or Comptroller)**

The Comptroller General is formally responsible for the operation of the IPO. The Comptroller can decide on disputes relating to patents and, in some instances, on disputes relating to SPCs.

### **Description**

The part of a patent specification which outlines the technical detail of the invention, to allow a reader to understand that invention and be able to put it into practice.

### **Enhanced cooperation**

A special procedure for a group of Member States within the European Union to make progress on more closely together within the structures of the European Union, in circumstances where not all Member States can agree on how to achieve an objective within the competence of the Union.

### **Entitlement**

Disputes concerning who owns a patent are commonly referred to as 'entitlement' disputes.

### **European Patent Convention (EPC)**

An international agreement, signed in 1973 and substantially revised in 2007, which establishes the European Patent Office and sets out the operation of the European patent system. The Convention presently covers 38 countries, including nations which are not members of the European Union.

### **European Patent Office (EPO)**

An international organization set up under the EPC, which administers the European patent system.

### **Ex Parte Proceedings at the IPO tribunal**

These are proceedings where a party is disputing a decision, or intended decision, of the Comptroller in relation to a patent. Most commonly take place during the application process, where the Comptroller believes grant of a patent should be refused.

### **Infringement**

When an act is performed without the consent of the patent owner, which is one which is within the exclusive domain of the patent owner, and for which there is no exception.

### **Intellectual Property Enterprise Court**

Formerly the Patents County Court, it is in the Chancery Division of the High Court and deals with disputes relating to intellectual property, particularly those involving small and medium enterprises, where the overall value of the claim is relatively low.

### **Intellectual Property Office (IPO)**

An executive agency of the Department for Business, Innovation & Skills, the IPO is the government body responsible for the national framework of intellectual property rights, comprising patents, designs, trade marks and copyright.

### **Inter Partes Proceedings at the IPO Tribunal**

Proceedings where the Comptroller is acting to decide a dispute between two parties, providing a legally binding decision on the issue. An example in relation to patents is an entitlement dispute, where a formal decision on which party owned the patent would result.

### **The London Agreement**

An agreement associated with the EPC, which came into force in 2008 and relaxes the translation requirements for granted European patents, therefore reducing the associated costs.

### **Opt out**

A provision in the Unified Patent Court Agreement which allows patent holders during the transition period to withdraw their patent (or Supplementary Protection Certificate) from the jurisdiction of the Unified Patent Court so that they remain in the jurisdiction of the national court for the life of the patent (or SPC), although they can be opted back in at any time.

### **Procedural decision of the IPO tribunal**

This is an interim decision issued during the course of the tribunal procedure, usually relating to the management of the case, such as admissibility of evidence. More than one procedural decision can be issued on a case.

### **Preparatory Committee**

A group of representatives from the countries signed up to the Unified Patent Court Agreement, charged with setting up the Court, including establishing rules of procedure, identifying facilities, recruiting and training judges and administrative staff, amongst other responsibilities.

### **Renewal fee**

A fee paid to by a patent owner to the patent office or other relevant authority in order for the patent to remain in force.

### **Revocation**

The court or the relevant patent office can deem the patent (or the relevant part) never to have been granted if they are not valid.

### **Select Committee**

A special committee of the EPO Administrative Council, established by the Unitary Patent Regulations, and charged with ensuring the EPO is able to carry out the various tasks given to it under the Unitary Patent Regulation.

### **Specification**

The combination of the description, claims, and associated diagrams.

### **Substantive decision of the IPO tribunal**

The final decision issued on the merits of the case. The decision is legally binding on the parties, but can be appealed to a higher court.

### **Supplementary Protection Certificates (SPCs)**

These are provided for in European Union Regulations<sup>34</sup> and extend the period of legal protection afforded to medicinal and plant products beyond the life of the patent relating to them for up to 5 years and 6 months.

### **Transition period**

A period of 7 years (which may be extended by up to another 7 years) during which patent owners may continue to bring actions for infringement and validity of bundle patents and SPCs based on bundle

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<sup>34</sup> Regulation (EC) No 469/2009 and Regulation (EC) No 1610/96

patents before national courts. They can also choose to opt out a bundle patent or SPC from the jurisdiction of the Unified Patent Court during the period.

### **Unified Patent Court**

International court, set up by the Unified Patent Court Agreement, which has exclusive jurisdiction over Unitary Patents when deciding issues of validity, infringement, and revocation.

### **Unified Patent Court Agreement**

International agreement, signed by 25 countries in February 2013, which establishes the Unified Patent Court.

### **Unitary Patent**

A single patent valid in all the countries signed up to the Unitary Patent Regulation; European bundle patents covering the same area are converted into a Unitary Patent after grant, upon request of the patent holder.

### **Unitary Patent Regulation**

European Regulation 1257/2012, which sets out the goals and basic operation of the Unitary Patent, as well as the obligations of Member States signed up to the Regulation.

### **Validity**

An action to determine whether a patent, or specific claims in the patent, should not have been granted because they did not meet the legal requirements at the time. Often used as a defence against infringement, since you cannot infringe a patent that is not valid.

Before you complete this form, please read the Justice Impact Guidance. It is available at: <http://www.justice.gov.uk/guidance/justice-impact-test.htm>.

Please answer as many questions as possible on this form before you contact Ministry of Justice (MoJ). If exact figures are not yet known, please provide your best estimates.

Forward the completed questionnaire, with any Impact Assessment, to MoJ’s Legal Policy Team at: [justiceimpact@justice.gsi.gov.uk](mailto:justiceimpact@justice.gsi.gov.uk).

**1. Your contact details**

Name	Katherine Evans
Department / office / business area	Unified Patent Court Taskforce / Intellectual Property Office
Telephone number	01633 813637
Email address	Katherine.Evans@ipo.gov.uk Laura.Starrs@ipo.gov.uk
By when would you like a response?	
Is this proposal marked 'Restricted'?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**2. General information**

Ministry of Justice Policy/Operational lead if known.

Michael Collins <a href="mailto:zzmichaelcollins.mdi@justice.gsi.gov.uk">zzmichaelcollins.mdi@justice.gsi.gov.uk</a>
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In brief, what is your proposal?

<p>This proposal has come about because the UK is a signatory of the Unified Patent Court Agreement.</p> <p>We intend to make changes to UK law (specifically to the Patents Act 1977) so that the UK is in a position to ratify the Unified Patent Court Agreement in 2015. The changes will mean a transfer of jurisdiction from UK courts to the Unified Patent Court in patent cases involving disputes over infringement and validity of either a European Patent designating UK, or a unitary patent (note - this does not affect national (GB) patents). Our changes to the Patents Acts will specifically remove powers from UK courts to deal with these kinds of disputes. Disputes concerning entitlement to a patent, or the licensing of a patent will still be dealt with in domestic courts. Supplementary Protection Certificate (SPC) infringement and revocation cases based on unitary patents will go to the Unified Patent Court as will SPCs based on European bundle patents that have not been opted out.</p> <p>This form considers impacts on the England &amp; Wales justice system.</p>
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What is your proposal intended to achieve, over what geographical area (e.g. England, England and Wales) and in what timescale?

The Unified Patent Court Agreement has been signed by 25 European Sovereign States that are Members of the EU. This means that the Agreement is an international treaty, rather than EU law. The Unified Patent Court is a Court of First Instance and has its own Court of Appeal.

The Unified Patent Court offers those holding European bundle patents and those holding unitary patents the ability to enforce their patent across a broader jurisdiction than has so far been possible. Currently, litigating across Europe can be a prolonged process with little certainty over outcomes across different jurisdictions. The application process for a European patent is consistent through the European Patent Convention signed in 1973 and the first applications were filed at the EPO in 1978. What results from this single application process is a bundle of patents each valid in only one country rather than a single patent covering the whole of Europe. Across Europe there is a lack of consistency in what happens when disputes arise concerning this bundle of European patent.

The courts of different European states can interpret a case differently, and will also take different lengths of time to resolve it. A dispute over a European bundled patent with the same claims may result in inconsistent outcomes across states – perhaps being revoked in one country, amended in another and yet found to be valid somewhere else. In part, this is because of the differing ways in which legal traditions around Europe operate, and perceive their role to be. For some, this uncertainty will mean that they are prepared to take their case to other jurisdictions in Europe in order to test the outcome and possibly reach another ruling, however this is a costly and uncertain strategy.

The Unified Patent Court will give a single ruling covering all countries where a bundle patent is valid; or for a unitary patent, the decision will be valid across all signatory states that have ratified the Agreement.

Our proposal will cover England, Wales, Northern Ireland and Scotland - we have regular contact with the Devolved Administrations. We have also been advised by the Government of the Isle of Man that they would like the UPC and unitary patent to extend to their territory and we are working with them on this issue. We are consulting the other Crown Dependencies and are yet to receive confirmation from them about whether they want the Agreement to extend to their territories.

The Preparatory Committee for the Unified Patent Court has said that the court will not open before the end of 2015. In order to make the necessary changes to the Patents Act 1977 we intend to lay secondary legislation in early 2015, and the changes will commence from the point that the 13<sup>th</sup> Signatory State (including the UK, France and Germany) has ratified the Agreement.

What public commitments have been given and to whom?

The Prime Minister negotiated key concession on this Agreement in June 2012. The Secretary of State for Business signed the Agreement in February 2013.

What are the options under consideration?

a) to ratify the agreement and ensure that the Unified Patent Court has a local division and a central division in the UK, giving people access to this new court with a wider jurisdiction.

b) do not ratify the Agreement, meaning that the current situation remains the only way for patent holders to litigate in Europe.



How does the proposal change what happens now? Who will be affected and in what numbers?

The changes will affect holders of European Patents who may have to go to the Unified Patent Court rather than national courts to litigate their patent. The changes will also introduce the unitary patent; the only instances where a holder of a unitary patent would go to a UK court would be if they had a dispute over entitlement or licensing.

It is not possible to accurately predict how many European Patents currently litigated at the UK courts will transfer to the Unified Patent Court. Levels of litigation involving EPO bundle patents and Unified Patents will depend on unknown factors such as the uptake of Unitary Patents and how many patent owners choose to switch from EPO bundle patents to the Unitary Patent. Furthermore, the Agreement also includes a 7-year transition period (which could potentially extend to 14 years) where a European (bundle) patent holder may register an 'opt out' meaning that their bundle of European patents would remain within the jurisdiction of the national courts. The opt out is valid for the lifetime of the patent - up to 20 years - although patent holders do have the ability to withdraw their opt out.

To give a sense of scale of how many cases could transfer from England & Wales courts to the UPC in the steady state (after the transition period), we take as our starting point the number of cases concerning EPO bundle patents commenced at the Patent High Court and the Intellectual Property Enterprise Court (IPEC) in 2007-2013. We assume that once the choice to opt out EPO bundle patents from the UPC's jurisdiction has lapsed, all EPO bundle patents currently heard at the national courts will transfer to the UPC, resulting in a reduced caseload for HMCTS.

To estimate cases commenced at the Patent High Court (Chancery Division) and the IPEC, we draw on research commissioned as part of the IPO Evaluation of the IPEC. This was completed by Dr McDonagh (Cardiff University) and involved researchers and paralegals going directly into the Court Archives to count cases commenced. Their research counted the number of cases which involved a European Patent which commenced in the IPEC or in the Patent High Court:

Year	IPEC case count	PHC case count	Total
2007	2	34	36
2008	3	68	71
2009	4	46	50
2010	5	45	50
2011	13	87	100
2012	11	87	98
2013	9	57	66

(NB: some case files missing for 2007)

Forecasting expected caseload at UPC:

In a steady state cases involving European Patents could migrate from national courts to the UPC. Given the variability in case filings, (excluding 2007) from a low of 50 to a high of 100 cases, it is possible that anything between 50 and 100 cases could migrate out of UK courts to the UPC.

There are certain fees associated with proceedings at the High Court and also at the IPEC. The IPEC only deals with cases where the amount of damages being claimed is below £500,000. In both the IPEC and the PHC there is a fee for starting proceedings which is dependent on the amount of damages claimed. If the amount being claimed is over £300,000 the fee charged is £1920. There is then a general fee which is charged according to the track the case is allocated to. The IPEC permits litigants to use the small claims track for claims with a value of up to £10,000. The fee for the small claims track is dependent on the amount being claimed: for a claim below £300, the fee is £25; there is then a scale, with the maximum fee being for claims over £3000, where the fee is £335. For claimants seeking damages above the £10,000 cap at the IPEC, the multi-claims track will need to be taken, with a fee of £1090; this also applies to claimants at the PHC. The proportion of cases at each court fee level is unknown, but MoJ operate at cost recovery in the longer term. It should be noted that the IPEC hears a range of Intellectual Property cases and non-patents cases would not be affected by our changes.

On advice of MoJ Analytical Services, this analysis assumes cost recovery of cases in the longer term. On this basis we assume that a reduction in caseload would not adversely affect HMCTS costs.

Caveats: some case files were missing for 2007 therefore have not been factored into our estimates.

### 3. Criminal Offences and Civil Penalties and Sanctions

Are you creating new civil sanctions, fixed penalties or civil orders with criminal sanctions or creating or amending criminal offences?

No

Please provide details of the relevant legislation (where appropriate) and confirm whether the creation or amendment of criminal offences and penalties has been agreed with MoJ.

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### 4. HM Courts & Tribunals Service

#### Increasing Business for the Courts and Tribunals

Do you expect there to be an impact on HM Courts & Tribunals Service through the creation of or an increase in applications/cases? Please provide an estimate.

We anticipate a reduction in applications or cases.

Would you expect fewer cases to come to HM Courts & Tribunals Service as a result of the proposal? Please provide an estimate of the number of cases.

We anticipate a reduction in claims and cases. As described above this is hard to quantify, but depending on overall trends in patent litigation, there may be a reduction of 50-100 claims at the IPEC and High Court when the court reaches a steady state.

This is based on the information conducted on behalf of IPO by Dr McDonagh (Cardiff University) as part of the IPEC Evaluation.

This estimate is for the steady state only. In the transition phase of 7-14 years after the UPC takes effect, patentees can opt their European Patent out of the UPC's jurisdiction. As little is known about opt-out behaviour at this point, we only provide estimates for the steady state. However we expect that the transfer of caseload from the national courts to the UPC will be lower in the transition phase as patents holders may take time to develop confidence in the UPC and feel comfortable using it.

We also assume there is no large-scale switch from European patents to national patents, in which case there would be retention of all cases within the national courts.

#### Appeal Rights

Does your proposal create a new right of appeal or route to judicial review? If so, how will these be handled (i.e. by HM Courts & Tribunals Service)?

Appeals will be handled by the Unified Patent Court's own Court of Appeal.

Do you expect to establish a new tribunal jurisdiction? If so, has this been discussed with HM Courts & Tribunals Service?

No.

### Alternative Dispute Resolution

Has the use of alternative dispute resolution (ADR) procedures (including mediation) been considered?  
If not, why not?

There will be a mediation and arbitration service provided within the Unified Patent Court; the Rules of Procedure for the UPC make provisions for judges to direct the parties to use mediation or arbitration before proceeding to a hearing.

### HMCTS Enforcement

Will the proposal require enforcement mechanisms for civil debts, civil sanctions or criminal penalties?

At present people may enforce some decisions made in another country's court against someone with assets in the UK. If enforcement of the order is required this would take place through UK courts. Decisions and orders of the UPC will be enforceable in the UK

As the decision on where to enforce civil sanctions is partly dependent on where assets are held we do not expect there to be much change from the current level of enforcement proceedings relating to patents cases brought in the UK – as those with assets in UK may find themselves equally likely to face enforcement proceedings from an outcome of a UPC case as a case heard outside the UK, or indeed inside the UK.

### HMCTS Procedural Rules, Sentencing and Penalty Guidelines

Do you anticipate that Court and/or Tribunal procedural rules will have to be amended? If so, when is the likely date for the changes?

No.

Will the proposals require sentencing and/or penalty guidelines to be amended?

No.

### 5. Legal Aid

Is your proposal likely to have an impact on the Legal Aid fund?

No - the Unified Patent Court has its own Legal Aid fund and procedures.

If legal aid may be affected, will (i) criminal, or (ii) civil and family, or (iii) asylum legal aid be affected?

N/A

If legal aid may be affected, would legal aid costs increase or be reduced (and by what margin)?

N/A

### 6. Prisons and Offender Management Services

Will the proposals result in an increase in the number of offenders being committed to custody (including on remand) or probation (community sentences)? If so, please provide an estimate and reasoning behind it.

No.

Will the proposals result in an increase in the length of custodial sentences? If so, please provide details.

No.

Will the proposals create a new custodial sentence? If so, please provide details.

No.

What do you expect the impact of the proposals on probation services to be? Please give explanation/calculations.

No impact.

### 7. Summary

Who will be affected by this proposal in MoJ? (details from information provided above)	Volumes	Type (e.g. prison place, tribunal hearing, fixed penalty, etc.)	Estimated costs (£)
Criminal Offences and Civil Penalties and Sanctions	N/A	N/A	N/A
HM Courts & Tribunals Services	Reduction of between 50 and 100	Reduction in hearings	zero
Legal Aid	N/A	N/A	N/A

Prisons and Offender Management Services (only complete if maximum penalty is something other than a fine)

Offence	Maximum Penalty	No. of prosecutions brought per annum	Likely conviction rate	Likely sentence
N/A				

Your completed questionnaire will be considered by MoJ to establish whether the proposals will have an impact on the aspects of the justice system for which MoJ has responsibility. If there are considered to be no impacts arising from your proposals, MoJ will agree this with you and you must record this in the Impact Assessment accompanying your proposals. However, if MoJ identifies a potential impact, MoJ will contact you to discuss and agree an estimate of costs including funding arrangements for the additional costs.

If you have any queries about this form, please e-mail [justiceimpact@justice.gsi.gov.uk](mailto:justiceimpact@justice.gsi.gov.uk) or telephone Pavandip Gandam on 020 3334 5339.

## Annex C – structure of the UPC

