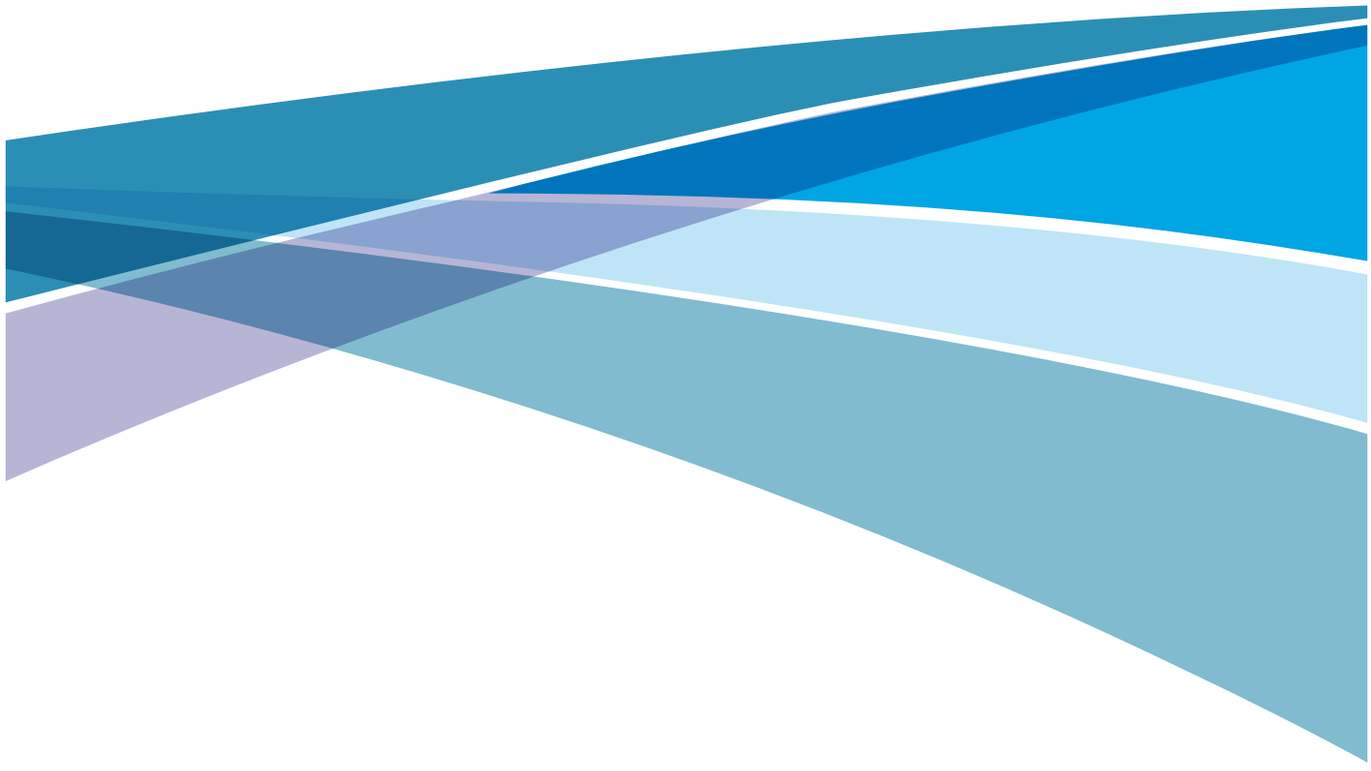
Intellectual Property Office

Exploring Perspectives of the Unified Patent Court and Unitary Patent Within the Business and Legal Communities



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Study Aims and Methodology:

Patenting in Europe is currently a fragmented and a complex process, both in application and in enforcement. This has wide implications for firms looking to protect their patents within Europe, often leading to greater costs compared to other patenting regimes. The aim of the establishment of the Unified Patent Court and the Unitary Patent is to offer a more streamlined and easy to use system with the ambition of unifying the European patent system as much as possible. While it is known that businesses and the legal community have various concerns about the proposed changes, the evidence base is limited. Recognising this, the IPO commissioned this empirical study examining the perspectives of the business and legal communities with regards to the Unified Patent Court and the Unitary Patent. The aim of this report is to outline and explore the most important issues for the stakeholders who will potentially use the court.

The main objectives of the study:

– Identify the key issues of concern to the business and legal sectors with regards to the Unified Patent Court and the Unitary Patent.

– Assess and appraise which issues are of greater or lesser relative importance to stakeholders.

– Gauge the overall sentiment of the aforementioned stakeholders with respect to the introduction of the Unified Patent Court and the Unitary Patent, including the likelihood that they will engage with the new system.

The study methodology involved:

– A review of existing literature on the current state of patent litigation in Europe and the UPC/UP reforms.

– In-depth interviews with key stakeholders within the business and legal sectors.

– Analysis and synthesis of the findings from the interviews, and the provision of recommendations based on the observations therein.

Key Findings:

The issues of judicial composition and quality will be crucial to the success of the UPC. Potential users of the UPC have real concerns regarding bifurcation and the granting of injunctions (especially in the ICT sector) and the central revocation risk (particularly evident in the Pharmaceutical sector). There is also anxiety amongst stakeholders concerning patent troll litigation and forum shopping at the UPC. In this respect, companies in all sectors have concerns about the maintenance of common standards across the 25 MS of the UPC. It is imperative that a high-quality judiciary is established across the entire UPC system, as this will do much to alleviate these concerns. To achieve this, effective training must be provided for the judiciary and clear UPC Rules of Procedure must be defined and published as soon as possible.

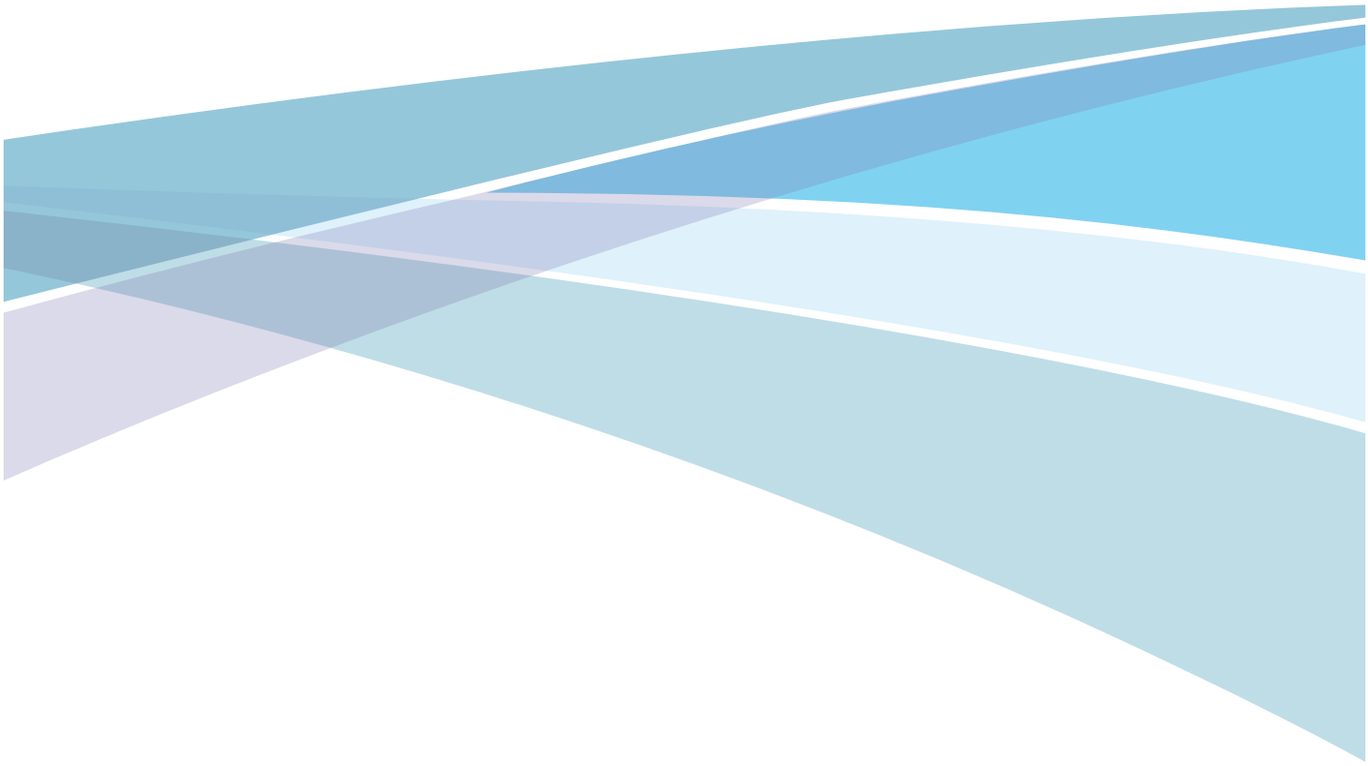
Cost is a real issue of concern for potential users of the UPC and UP. There is hope that the UPC will lead to lower overall costs for patent litigation in Europe; however, this is tempered by the fact that many potential users fear that the costs of patent litigation in Europe will in fact increase. There are also concerns over the value-based fee system, including its perceived unpredictability, although it is noted that it could encourage parties to keep their legal costs down since it puts a cap on recoverable costs, and some feel it may benefit SMEs. Many businesses report that the wide protection offered by the UP may not be worth paying for, although it will be seen positively if fees are set at a reasonable level. A UP renewal fee which is set far above the combined UK, French and German renewal fees is likely to reduce the attractiveness of the UP as an option for those who currently take out limited European protection.

Whether to opt-in or opt-out of the UPC jurisdiction is an important decision that patentees have to make, and many stakeholders are as yet undecided about what they intend to do. The responses strongly suggest that the opt-out fee will be a major factor in this decision and several interviewees argued that it should be set at an administrative level. The data suggest that many patentees will initially seek to opt out their most valuable patents, while keeping low and mid-range patents within the UPC system, though some patentees may opt-in their ‘strongest’ patents to benefit from one-stop enforcement.

The London-based Central Division is expected to be beneficial for both for the legal community in London and for Pharmaceuticals more generally. The legal profession faces a number of important challenges over the coming years as a result of the new system. The emerging view is that larger firms will benefit over smaller firms due to the amount of resources required to conduct speedy patent trials. Patent attorneys expect there to be an increase in costs for their firms. The use of English at the UPC is seen as a benefit for UK firms.

The key concerns relating to SMEs are cost, the revocation risk, and the injunction risk. SMEs share many of the primary concerns of the larger companies regarding the UPC. However, the major difference for SMEs is the scale of the risk involved. A revocation ruling, or an injunction grant, against an SME with effect across 25 MS could prove fatal to the SME’s prospects.

Overall, potential users of the UPC and UP possess both hope for, and concerns over, the new system. Concerns such as higher costs, greater complexity and more patent troll litigation are countered by the potential benefits of lower costs and one-stop enforcement. However, it is clear from the interviews that these hopes, expectations and fears are not set in stone; they are contingent on a number of yet to be decided issues, such as what the exact rules of procedure will be and what the precise levels of the fees for the UPC and UP will amount to. As such, the planners/organisers of the UPC and UP ought to take into account the views of the stakeholders canvassed here in order to harness the real, yet fragile, goodwill that exists towards the UPC, while at the same time allaying the major fears about it in the minds of the system's potential users.



1. INTRODUCTION

Currently individuals or businesses seeking to protect their inventions across Europe can either apply separately to each national patent office for a national patent or they can apply to the European Patent Office (EPO) for a 'bundle' of national patents; one for each country specified.[1] The process is typically subject to costly translation provisions and, in some countries, additional validation charges which apply before the EPO granted patent can take effect. An EPO bundle of patents (for the same invention) does not necessarily offer uniform protection in each state, as different national rules apply.

The current system for enforcement is also not uniform; any litigation involving a European patent takes place at a national level, rather than at a European one. This means that, for example, a patentee who needs to enforce a patent in more than one Member State (MS) must pursue legal proceedings in several different courts, even if the patents are essentially the same. Moreover, the fragmented nature of the litigation system means that a patent invalidated in one jurisdiction remains in force in other jurisdictions where it has been validated.[2]

Dissatisfaction with this costly and fragmented system - which has resulted in the existence of 'some duplicative, and even in some cases contradictory, patent enforcement decisions across jurisdictions within Europe' - is longstanding, and negotiations for a unified system were on-going across Europe for 40 years.[3] Eventually, on 19 February 2013 the UK and 24 other countries signed an intergovernmental Agreement (the Agreement) to create a Unified Patent Court (UPC), which will be a new specialist patents court common to participating states.[4]

1 EPO, *How to get a European patent - Guide for applicants*; accessible at http://www.epo.org/applying/european/Guide-for-applicants.html

2 K. Cremers, M. Ernicke, D. Harhoff, C. Helmers, G. Licht, I. Rudyk, P. Schliessler, C. Schneider & N. van Zeebroeck 'Patent Litigation in Europe,' ZEW *Discussion Paper* No. 13-07 (2013), 1 (hereafter known as K. Cremers); http://ftp.zew.de/pub/zew-docs/dp/dp13072.pdf

3 *Ibid*.

4 Agreement on a Unified Patent Court (2013/C 175/01); accessible at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:175:0001:0040:EN:PDF

The Agreement is part of a package of measures designed to establish and enforce unitary patent protection within Europe.[5] The new measures include two EU regulations which establish the European patent with unitary effect - a.k.a. the Unitary Patent (UP) - and the associated translation arrangements.[6] The package will provide individuals and businesses with the opportunity to protect their inventions across participating states under a single UP, and to have disputes (on infringement or validity) settled under a court system common to the participating states (the UPC).

The UPC will be comprised of a Court of First Instance (CFI), consisting of Central Divisions and local and/or regional divisions, hosted by Signatory States or groups of Signatory States, and a Court of Appeal to be located in Luxembourg. The seat of the primary Central Division will be in Paris, with specialist technology divisions to be set up in London and Munich according to subject matter. The London Central Division will deal with validity actions in the chemical and pharmaceutical fields, including life sciences. It will also deal with infringement actions transferred from local or regional divisions and those from countries where there is no local or regional division. The UPC will also have new mediation and arbitration facilities in Portugal and Slovenia.

The UPC will 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). The local or regional divisions of the UPC will handle infringement actions and will be set up by participating states. Thus far, 24 out of 28 EU member states have agreed to proceed fully with the new system. Spain and Poland have both decided not to take part in the new court system, at least for the time being. The situation in Italy is unique due to the fact that it signed the Unified Patent Court Agreement but opposed the EU 'Unitary Patent Package'. Thus, it has been noted that 'the Unitary Patent will not be effective in Italy' yet the UPC 'will have jurisdiction' within limits.[7] Croatia, the 28th EU member state (MS), which only joined the Union in 2013, may yet decide to join the UPC at some point in the future.[8] The situation is further complicated by the fact that the establishment of UP falls within an area of European Union policy, and therefore signatories to the EPC who are not EU MS, including a number of countries such as Switzerland and Iceland, will not initially be part of the new system.

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5 Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection;

Council regulation (EU) No 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements – both documents accessible at: http://ec.europa.eu/internal_market/indprop/patent/documents/index_en.htm

For a further explanation of the changes see the EPO website: http://www.epo.org/law-practice/unitary.html

See also R. Romandini and A. Klicznik, 'The territoriality principle and transnational use of patented inventions - the wider reach of a unitary patent and the role of the CJEU,' *International Review of Intellectual Property and Competition* Law 44 (2013), 524 and M. Brandi-Dohrn, 'Some critical observations on competence and procedure of the unified patent court,' *International Review of Intellectual Property and Competition Law* 43 (2012), 372.

6 *Ibid*.

7 http://www.theunitarypatent.com/unitary-patent-the-situation-in-italy

8 See generally T. Cook, 'The Progress to date on the Unitary European Patent and the Unified Patent Court for Europe,' *Journal of Intellectual Property Rights* 18 (2013), 584.

In addition, for the first 7 years patentees who obtain EPO bundle patents will be able to opt-out of the UPC system, and instead continue to use the current system of national validation and litigation. So while the overall aim of the system is to de-fragment and unify the European patent system, initially this will result in an even more fragmented litigation system, with the additional layer of UPC litigation on top of the current national systems.

Nevertheless, with the expectation that following a transitional period the UPC will become the primary court for litigating all European Patents (EPs) granted by the EPO, the scheme's ambition is clearly to unify the European patent system as much as possible within the next few decades. Further to this, should the UPC and UP prove to be a success it is likely that in the future the remaining member states of the EU who are currently not taking part, or are only doing so partially - such as Italy, Spain, Poland and Croatia - will join and participate fully in the new system. It is also possible to envisage some sort of an agreement which would allow at least some non-EU EPC signatories such as Switzerland and Iceland (which is in any event currently a potential EU accession state) to join up with the system.

From the UK perspective, it will soon be the case that UK businesses and inventors will possess an alternative to the current system for protecting their inventions and enforcing their patents across the EU. In this regard, much work remains to be done with respect to finalising the details of the make-up of the UPC Central Division to be located in London, as well as setting appropriate fees for renewing UPs and for using the UPC.[9] With this in mind, the IPO commissioned this research project with the aim of discovering at a qualitative level the answer to the following question: what are the most important issues for the stakeholders who will potentially use the new system?[10] For instance, will potential users be likely to seek protection via the UP route rather than through the existing system? If so, why (and if not, why not)? Moreover, is the proposed UPC likely to prove to be a popular venue for companies/litigants, particularly those in the Pharma/Chemicals sector in light of the proposed London-based court? If so, what makes the UPC attractive (or unattractive, as the case may be)?

This report presents the results of an empirical survey undertaken during January-March 2014. It assesses a large amount of data concerning the key UPC/UP questions outlined above, such as whether business are likely to opt-in or opt-out of the UPC. As detailed over the course of this report, businesses have to consider what the impact of pan-25 MS injunctions and pan-25 MS revocations might be, assess the legal costs of using the new system viz. the current system, and take account of fears concerning bifurcation, forum-shopping and a possible growth in 'patent troll' litigation. In this respect, the data provided here can be used to inform the current preparations for the new system, with the aim of achieving the hoped benefits of the new system, while allaying the fears over how it will work in practice. In this vein, several recommendations are made by the author in section 4 of the report with respect to these key concerns, including the establishment of a high quality judicial system across the UPC and the setting of appropriate fee levels for the UP and UPC (including the opt-out fee). Additionally, the data provided here can be used to inform future studies aimed at establishing how the proposed UPC, once up and running, is altering litigant behaviours.

9 Reddie and Grose, 'How Much More Will the Unitary Patent Cost?' (January 2013), 1; accessible at http://www.reddie.co.uk/M/R&G_UnitaryPatentCost.pdf

10 J. Pagenberg, 'Unitary patent and Unified Court - what lies ahead?,' *Journal of Intellectual Property Law & Practice* 8 (2013), 480-485.

As discussed below, in terms of its participants the project's remit includes businesses based in the UK, as well as businesses that operate internal and external to the wider EU. Interview participants are also drawn from the legal community - solicitors, patent attorneys etc. - working in the UK and Germany, two important EU and EPC member states with large, embedded patent litigation systems that will no doubt be affected by the establishment of the UPC.

It is important to make clear at the outset that this report cannot attempt to provide an absolutely definitive statement on the impact of the UPC/UP on the business and legal communities in the EU. The survey is necessarily limited to a particular moment in time as well as to a limited number of carefully assembled participants, as detailed in the methodology below. Nonetheless, this report represents a useful snapshot of what the perspectives of the UPC/UP are within the business and legal communities at this point in time - early to mid-2014 - with the new system emerging on the horizon, but not yet fully in view.

2. OVERVIEW OF THE EMPIRICAL RESEARCH METHODOLOGY

During early January 2014 the author worked with the IPO to ensure that the overall research methodology - and particularly the list of interview questions and the representative sample of interviewees - was appropriate and tailored to meet the primary aim of the project i.e. establishing what the most significant issues are for potential users of the new system within the business and legal communities.

In this respect, the author first examined the available literature on (i) the current state of patent litigation in Europe and (ii) the UP/UPC reforms in order to discover what the key patent issues currently are in Europe and what impact the reforms are likely to have in this field. Secondly, the author created (i) an initial representative sample to cover the projected 25-30 interviews and (ii) a list of provisional interview questions which drew upon the insights drawn from the literature review. The representative sample and provisional interview questions were created with the intention of running 4 initial pilot interviews to gauge the responses of interviewees to the questions. During, and immediately after, the pilot the questions were reviewed and re-designed, incorporating suggestions made by the pilot interviewees, before the remaining interviews took place. Once the core set of questions had been finalised (following the 4 pilot interviews) the remaining interview candidates were invited to take part, and the remaining interviews took place from February-March 2014.

A. Examining the existing research on Patent litigation in Europe

The available empirical evidence on patent litigation in the UK was, up until recently, fairly limited - while some studies existed, there was little comprehensive work.[11] Indeed, this very point is made in a literature review commissioned by the Strategic Advisory Board for Intellectual Property (SABIP) in 2009[12]. Since 2009, however, a number of studies have been published. With respect to qualitative research, Greenhalgh et al.[13] Collected survey data on a small sample of patenting and non-patenting companies (alive between 2002 and 2009) to analyze the IP litigation activity of micro firms and SMEs, with a particular focus on IP disputes that never made it to court. The study highlights the challenges the SMEs face in conducting IP litigation – noting in particular the fact that IP litigation is typically viewed by SMEs as being too costly and time-consuming for them to realistically engage in, even in situations where they think infringement of their rights has occurred. This insight informed the question design for the SME interviews undertaken during this project, and the resulting data are discussed in the context of the UPC in the analysis given in section 3 below.

11 G. Moss, M. Jones, and R. Lundie-Smith, 'Just how `anti-patent' are the UK courts?,' *Journal of Intellectual Property Law & Practice* 5 (2010), 148, 148-150.

12 K. Weatherall, E. Webster and L. Bently, *IP Enforcement in the UK and Beyond: A Literature Review - SABIP Report* Number EC001, SABIP (2009), 1, 5.

13 C. Greenhalgh, J. Philips, R. Pitkethly, M. Rogers, J. Tomalin, *Intellectual Property Enforcement in Smaller UK Firms - A Report for the Strategy Advisory Board for Intellectual Property Policy*, SABIP (2010), 1, 69-70.

In 2013 the most comprehensive quantitative survey yet undertaken of UK patent litigation was published.[14] The study provides quantitative data analysis of all patent cases filed at the Patents Court (PHC) between 2000 and 2008 for which online records are available, as well as all patent cases decided at the Patents County Court (PCC)[15] in 2007 and 2008. The data show that a large proportion of patent cases filed in the UK involve chemicals/pharmaceuticals. The data also demonstrate that a high proportion - around two thirds - of UK PHC decisions result in revocation of the disputed patent, showing that the UK courts take the question of patent validity very seriously.[16] The authors argue that this fact - in addition to the presence of the 'loser pays' costs system - deters litigation by Non-practising Entities (NPEs) or Patent-assertion Entities (PAEs) (a.k.a. 'patent trolls') in the UK, a point recently cited in the House of Commons.[17]

With respect to patent litigation in the various jurisdictions of Europe, the recent ZEW working paper by Cremers et al. is the most significant comparative paper yet written on the subject of patent litigation in Europe.[18] It examines patent litigation in the UK, Germany, France and the Netherlands, and it provides a wealth of quantitative analysis on litigation in these jurisdictions. It is clear that the overwhelming majority of European patent litigation occurs in Germany, and in particular at one of Germany's major regional patent courts in Düsseldorf, Mannheim and Munich.[19] The insights raised in the ZEW paper are highly relevant to the analysis of the interview data undertaken in section 3 below, which includes perspectives drawn from the UK and German legal communities. For instance, an important issue highlighted in the ZEW paper is the fact that the UK deals with infringement and validity decisions together, while the German system uses a system of bifurcation of infringement and validity decisions.[20] Thus, regardless of whether a case is filed as an infringement claim or as a revocation claim in the UK, the PHC conducts a stringent validity analysis. Indeed, in the UK revocation is both a very common initial claim and a frequent counter-claim; moreover, as stated above, revocation is the most likely ultimate decision at the PHC level, regardless of the initial claim.[21] By contrast, the ZEW paper demonstrates that in Germany infringement is the most likely outcome, and only around a third of all alleged infringers actually file a (separate) revocation claim, meaning that revocation tends to occur less often in Germany.[22] More controversially, due to delays in the issuance of decisions on validity it is not uncommon in Germany for a first instance infringement ruling to be handed down before a ruling on validity is given.[23] This in turn can lead to the 'invalid but infringed' scenario outlined by Dietmar Harhoff, who states that in the context of infringement cases which

14 C. Helmers and L. McDonagh, 'Patent litigation in the UK: an empirical survey 2000–2008,' *Journal of Intellectual Property Law & Practice* 8 (2013), 846.

15 Since November 2013 the PCC has been known as the Intellectual Property Enterprise Court (IPEC).

16 C. Helmers and L. McDonagh, *supra*, n 14, 854-861.

17 Reference was made in this debate to C. Helmers and L. McDonagh, 'Trolls at the High Court?,' *LSE Law, Society and Economy Working Paper* No. 13/2012; http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154958.

This discussion was reported in the UK Parliamentary record (Hansard) on March 20, 2014; accessible at http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140320/text/140320w0002.htm#14032098000031

18 K. Cremers, supra, n 2.

19 *Ibid*., 1-5.

20 *Ibid*.

21 C. Helmers and L. McDonagh, supra, n 14, 856-861.

22 K. Cremers, supra, n 2, 47.

23 D. Harhoff, 'Invalid but Infringed?! The Impact of the German Patent Enforcement System on Innovation,' Presentation delivered at the Patent Statistics for Decision Makers Conference 2012, OECD, Paris, 29 November 2012; accessible at http://www.oecd.org/site/stipatents/Session%204.1.%20Harhoff.pdf

involve a parallel revocation claim, in 10-20% of all such cases where the patents are held to be infringed at first instance, the patents are in fact later held invalid, or partially invalid, by the annulment court.[24]

Regarding fees, while in the UK court fees generally follow a relatively stable 'fixed' fee model (within certain defined thresholds and dependent on the number of applications/hearings), the German system features a 'value-based' fee system.[25] This divergence between the two systems is of great significance to this study given the fact that the UPC will feature a mixture of fixed and value-based fees. Comparisons between the two systems are made in the context of the empirical research in section 3 below.

One final point is of particular interest in light of the remit of the London-based UPC Central Division - the ZEW paper establishes that the UK courts system deals with proportionately by far the greater share of complex pharmaceutical and chemical patent cases in Europe.[26] Thus, with regard to the specialist nature of the proposed UPC Central Division, which will deal primarily with exactly these types of patent cases, the intellectual resources are likely to already be present in London. This issue is further explored in section 3.

Regarding the UPC/UP reforms, the EPO Economic and Scientific Advisory Board report – 'Recommendations for improving the patent system' – holds considerable interest.[27] With respect to post-grant patent quality analysis the EPO report states that 'a more efficient and less expensive litigation system is desirable'.[28] As detailed in section 3 below, the UPC is likely to have a major impact on post-grant quality analysis due to the existence of UPC revocation actions. Furthermore, the EPO report states that with respect to patent fees the existence of 'harmonised fee policies at European level could help to avoid low-quality applications, reduce complexity and discourage certain patent filing practices' while they also warn that any reforms to the current system 'should have a clear rationale and beware of unintended consequences'.[29] As explained below, the level of the harmonised UP fees will undoubtedly prove to be an important factor regarding the uptake of UPs in the early years of the new system.

24 *Ibid*.

25 S. Cohen, 'Selected IP Jurisdictions - Germany' (2007), 1, 4; accessible at http://www.taylorwessing.com/uploads/tx_siruplawyermanagement/Handbook_of_European_IP_-_Simon_Cohen.en.pdf

The chapter is also published in A. Jolly and J. Philpott (eds.), The Handbook of European Intellectual Property Management (Kogan Page: London, 2007).

26 K. Cremers, supra, n 2, 60.

27 EPO Economic and Scientific Advisory Board, Recommendations for improving the patent system (2012); accessible at http://documents.epo.org/projects/babylon/eponot.nsf/0/835DA6DA218CB760C1257B2C004E809E/$FILE/ESAB_statement_en.pdf

28 *Ibid*., 4

29 *Ibid*.

Overall, therefore, regarding the approach taken by the researcher in drawing up the questionnaire for the interviews, the process was informed by insights drawn from the above studies, as well as the draft 'Rules of Procedure' for the UPC,[30] and several recent academic publications on the subject of the UPC/UP reforms.[31] As shown in part A of the Annex, the provisional list of questions was drawn up to include general questions covering interviewee attitudes towards the UPC/UP (including hopes and fears), as well as specific questions on the opt-in/opt-out option, the various UPC/UP fees, the UPC locations, and several business sector-specific issues.

B. Creating the Representative Sample

During January 2014 the author worked with the IPO to draw up a purposive qualitative case study sample featuring direct and indirect potential users of the UP/UPC.[32] The sample includes a total of 25-30 interviewees from the following categories:

i) Large businesses based in the UK (in-house counsel and IP experts)

ii) Large businesses based in the EU (in-house counsel and IP experts)

iii) SMEs in the UK

iv) Patent attorneys in the UK and elsewhere in the major EU jurisdictions (e.g. Germany)[33]

v) Solicitors/Attorneys/Lawyers in the UK and elsewhere in the major EU jurisdictions (e.g. Germany)[34]

vi) Representative bodies

30 16th Draft of the Preliminary set of provisions for the Rules of Procedure ("Rules") of the Unified Patent Court (UPC Rules of Procedure); accessible at http://www.unified-patent-court.org/images/documents/revised-draft-rules-of-procedure.pdf

31 See for example A. Kaisi, 'Finally a single European right for the EU? An analysis of the substantive provisions of the European patent with unitary effect,' *European Intellectual Property Review* 36 (2014), 170, J. Pila, 'The European patent - an old an vexing problem,' *International & Comparative Law Quarterly* 62 (2013), 917 and A. West, S. Kusumakar and T. Powell, 'Unitary Patents and the Unified Patent Court,' *Computer and Telecommunications Law Review* 19 (2013), 105.

32 For discussion of the way 'samples' and 'fields' are constructed in relation to empirical research see S. Dalsgaard, 'The field as a temporal entity and the challenges of the contemporary,' Social Anthropology 20 (2013), 213. Regarding analysis of what the appropriate length of research projects is, see G. Marcus, 'How short can fieldwork be?' Social Anthropology 15 (2007), 353.

33 It was initially intended that the project would include French lawyers, but unfortunately this proved impossible within the timeframe of the project. Despite the efforts of the author and the IPO (6 email invitations were issued) no French invitees from the legal community accepted the invitation to participate.

34 *Ibid*.

Regarding the business community, the interviewee sample drawn up by the author and the IPO included representatives – such as in-house counsel/patent attorneys/IP experts – of large businesses based in the EU, with a particular emphasis on UK-based companies. This sample included a broad spectrum of large companies in the various sectors that reflect the three UPC Central Divisions in London (Pharma/Chemicals), Munich (Engineering) and Paris (everything else, including Information and Communications Technology (ICT) and Electronics). For simplification purposes, and to enhance anonymity, the analysis provided in section 3 below uses the category of the 'ICT sector' (ICT) to include both ICT companies and companies that manufacture consumer electronics, while the 'Engineering sector' (ENG) includes a broad range of companies involved in large scale manufacturing, such as automotive and defence companies. Where the term 'Pharma/Chemicals sector' is used it encompasses pharmaceutical and chemicals companies (though at other times, where necessary, these sectors are analysed separately). The author took care to ensure that a balanced number of representatives from all three of these broad sectors were invited to participate. Finally, it is important to note that for the purposes of clarity, and to enhance anonymity, the various in-house counsel/patent attorneys/IP experts working at each company are referred in the analysis below as 'in-house counsel'.

Regarding SMEs, there are significant challenges to obtaining a representative sample of SME interviewees given the size and diversity of the SME sector; moreover, its patentee members tend to be less visible than their larger peers. Indeed, early responses from interviewees during the pilot stage of the data gathering process (outlined below) indicated that unlike larger businesses SMEs often do not have an in-house dedicated team of IP experts/counsel, and for this reason SMEs tend to follow closely the advice of their patent attorneys in legal matters. In light of this, the SME perspective is represented in this report via two elements – first, through examination of the interview data gathered from solicitors and patent attorneys who have direct experience of advising SMEs; and second, via analysis of interview data gathered from interviews undertaken with in-house IP experts operating at one Pharma SME and one ICT SME.

Ultimately, with regard to the business community a total of 15 interviews took place featuring a total of 17 respondents (two interviews were dual interviews). Of the 15, 7 interviews (featuring 9 participants) took place with in-house representatives of the ICT sector (including one ICT SME). 5 interviews took place with in-house representatives of the Pharma/Chemicals sector (including one Pharma SME).[35] Finally, 3 interviews took place with experienced in-house counsel at Engineering firms. These in-house interviewees include a number of qualified lawyers and patent attorneys, several of whom have experience of representative organisations.

35 It is worth noting that one of these 'Pharma' multi-national companies was a large 'diversified' company which also had business in areas other than Pharma, including in the Engineering sector. However, the greater emphasis during the interview was on the Pharma side of the business, than on other areas, which is why it is put into this category.

The reason for the slight over-emphasis of the ICT sector in terms of the number of interviewees is that, on average, invitees from this sector responded more positively and much more quickly to the invitations than invitees in other sectors.[36] This may well indicate that patent experts in the ICT sector are particularly engaged with the UPC/UP discussions. Moreover, during the initial pilot and early interviews, several interviewees suggested other potential participants who might be interested in the study - 3 of the eventual ICT interviewees were initially contacted via this 'snowball' method, as was 1 Pharma interviewee.

With respect to the legal community, a total of 11 interviews took place, featuring 11 individual participants - 3 of whom have experience of working in representative organisations. Of the 11, 6 interviews took place with UK solicitors who have experience of patent litigation (including two who have experience of SME patent litigation). Meanwhile, two interviews took place with UK patent attorneys - one who has experience working with larger businesses in private practice and one whose main experience comes from advising SMEs. Finally, one interview took place with an experienced German lawyer and two interviews took place with experienced German patent attorneys.

Ultimately, a total of 26 interviews (featuring a total of 28 interviewees) took place - 15 from the business community and 11 from the legal community. The interviewees agreed to participate voluntarily under the condition of anonymity. They gave up their time generously, for which I am most grateful. All data is held and used anonymously in accordance with the Data Protection Act 1998.

C. The Conduct of the Interviews - January-March 2014

During early-to-mid January 2014 the author worked with the IPO to identify the specific questions that the project ought to ask and provide answers to.[37] Following the creation of the list of provisional questions, 4 pilot interviews took place during late January 2014. The first two involved a UK patent attorney and an ICT in-house counsel. The main feedback comments from these interviews were as follows:

– *Both interviewees noted that the questions covered most of the key issues, but they argued that there were too many questions in the list; they felt that although the right questions were asked, the interview did not flow as easily as it could have. For this reason, they felt the list needed to be simplified and framed around 6-7 core questions.*

– *One of the interviewees made the suggestion that 2 additional questions be added - one on the possible interplay between UPC revocation actions and EPO oppositions in light of the EPO backlog; and one on the issue of whether patentees would consider a return to the national patenting systems once the UPC transitional period ends and they can no longer opt-out of the UPC system.*

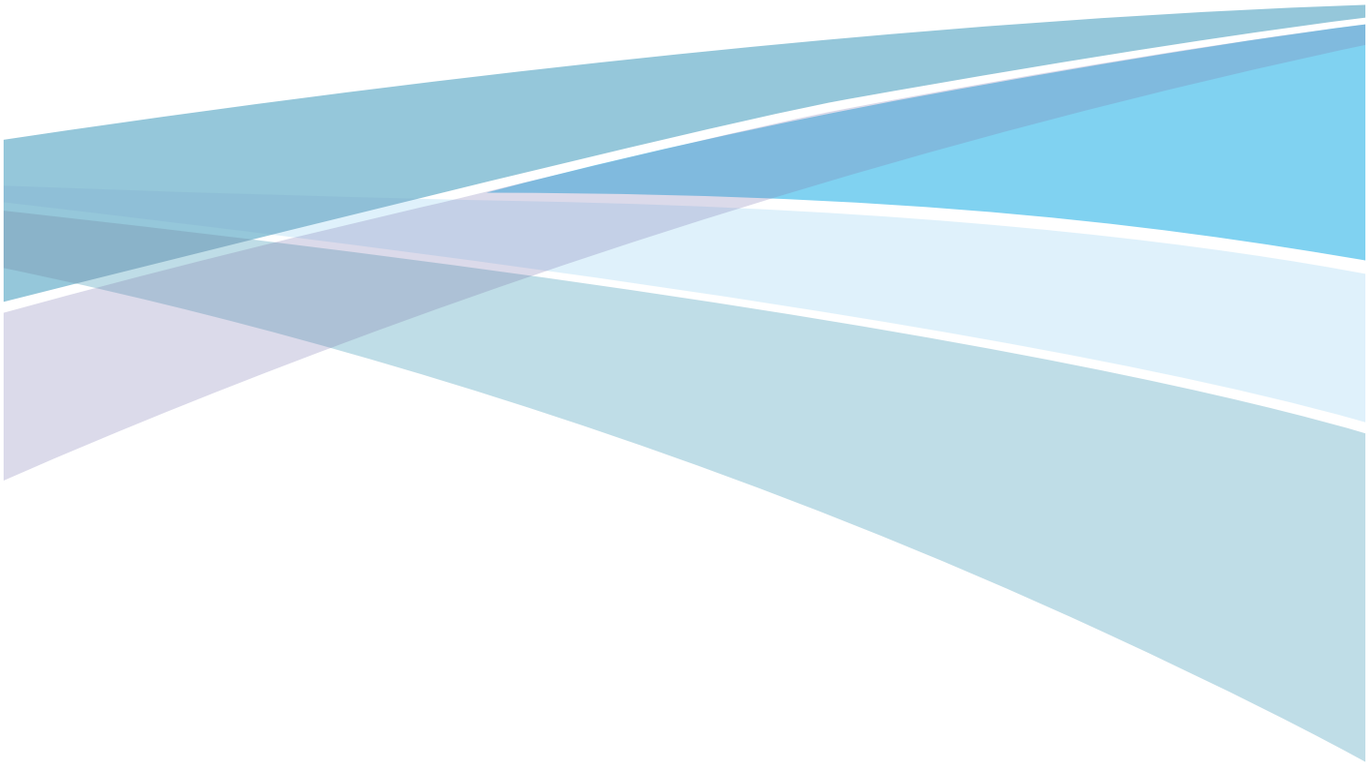
36 Overall, an equal number - approximately 9-10 - invitations were sent out to representatives from each sector - 'Pharma/Chemicals', 'Engineering' and 'ICT'.

37 This list of provisional interview questions is shown in part A of the Annex.

In light of this feedback, the author designed two new questions covering these issues and added them to the provisional list of questions - as shown in the final section of part A of the Annex. Following this, the final two pilot interviews were carried out - both of these interviews featured in-house ICT counsel. These final pilot interviews followed the initial provisional list of questions (with the addition of the two new questions) with the intention of gauging responses/ interview flow in order to restructure the list of questions post-pilot. Then, following the final two pilot interviews, the author re-oriented and to some extent simplified the interview questions in order to create the final list of questions - shown in part B of the Annex. The remaining 22 out of the overall total of 26 interviews took place using this final list of questions.[38] In total, 23 out of 26 interviews were carried out over the phone, 2 were carried out face-to-face and 1 interview was carried out in a truncated form via email in line with the participant's wishes after he had been forced to withdraw from a phone interview at the last minute due to work constraints.[39]

38 However, it is notable that the first 8 interviews did not feature Question 7 - which asked interviewees about their sources of information on the UPC - as this question was only added following a suggestion by the IPO after the first 8 interviews took place

39 Not all questions were asked/answered during this truncated interview, due to the participant's time constraints. Where a question was not asked/answered, this is noted in the annex.



3. EMPIRICAL DATA ANALYSIS

By asking a set of 7-8 core questions to each interviewee (as detailed in annex B) the researcher sought to discover what participants consider to be the most important issues at this time with respect to UPC and UP. The key issues explored below include the costs of using the UPC and UP, the opt-in/opt-out decision, various business sector-specific concerns, as well as the changes the new system will bring to the legal community.

A. ASSESSING THE COSTS OF USING THE NEW SYSTEM

All interviewees, whether from the business field or from the legal community, stated that they have concerns about some or all of the costs of using the new system, namely the UPC opt-out fee, the fees for using the UPC, and the UP renewal fees. These issues are of particular concern for businesses at the present time since the levels of these fees have not yet been finalised, which means that businesses are currently unable to properly weigh up the costs/benefits of using the new system.[40]

The opt-out fee

The UPC opt-out fee is a major concern for patentees: the interviewees stated universally that a relatively high opt-out fee will dissuade businesses from opting-out their entire portfolio from the courts system. For this reason, several interviewees argued that this fee should be set at a relatively low, administrative level. Nonetheless, interviewees from the ICT sector noted that these small administrative fees would soon add up for companies seeking to opt-out large portfolios. In this respect, one interviewee solicitor argued that 'bulk opt-outs should get a discount on the opt-out fees'.

Court fee levels at the UPC

Generally, the UPC fees issue is seen by stakeholders as a less important one than the issue of the UP renewal fees. Indeed, as detailed in annex B, around half of the interviewees stated that they do not see the UPC fees issue as a major concern. The reason for this comparative lack of concern about court fees is that while renewal fees have to be paid for every patent, court fees only come into play for litigated patents - and the vast majority of patents are never litigated. Moreover, in the UK the PHC fees are dwarfed by the private legal costs of undertaking litigation at the court, which typically amount to more than £1million for each side.[41] That being said, even though the UPC fees are generally seen as an issue of lesser importance than the UP renewal fees, several interviewees made important observations on the UPC fees issue.

40 J. Nurton, 'Patent practitioners call for UPC cost clarity,' *Managing Intellectual Property* (March 2014); accessible at http://www.managingip.com/Article/3320776/Patent-practitioners-call-for-UPC-cost-clarity.html

41 L. McDonagh and C. Helmers, 'Patent litigation in England and Wales and the issue-based approach to costs,' Civil Justice Quarterly 32(3) (2013), 369.

In particular, it was noted that, in contrast to the UK, in Germany the costs of the court fees in patent cases can often rival the private legal costs - court fee figures of between €100,000-€200,000 per case were regularly cited by interviewees based on their prior experience of the German system. Given the fact that there are great disparities in court fees between different European jurisdictions - and in particular between the UK and Germany - there is understandably a great deal of scepticism amongst some stakeholders about basing the UPC fees on a combination of the current fee levels in e.g. 3-4 EU MS.

For this reason, just over a quarter of all interviewees argued that the UPC fees should be set at a level significantly lower than the current German fees - and not at a combined DE + UK + FR level. In terms of specifics, one solicitor interviewee argued that the initial filing fee 'should be less than £10,000' and that the overall court fees ought to amount to 'much less than the €200,000 level that commonly results in Germany'.

Other stakeholders appear to be more sanguine on the fees issue. A small minority of interviewees stated that they are willing to accept UPC fees approximating the fees of litigating in 1-2, or even 3-4, jurisdictions. For instance, one Germany-based lawyer stated that a fee level at the 1-2 MS level would be ideal because at present most patentee companies do not litigate in more than 1-2 jurisdictions. Furthermore, one in-house ICT counsel even stated that high upfront filing fees are 'something they favour' because such fees 'act as a deterrent to the filing of frivolous lawsuits'.

Value-based fees

The proposed fee system for the UPC will feature a mixture of fixed and value-based fees, with the value-based fees coming into play once a certain value threshold is met. Some potential users of the UPC are sceptical about the use of a value-based fees system. For example, one experienced solicitor argued that using a German-style value-based fee system within the UPC would not provide litigants with a reliable costs gauge 'given that in Germany damages can be claimed which go beyond this "value"'. Instead, he argued that it would be better to establish an instalment-based, incremental fee system, based upon how much the parties use the court e.g. the number of hearing days, applications etc.

By contrast, a German lawyer I spoke to argued that the value-based system 'works very well' in the vast majority of cases in Germany where 'it is used in order to cap costs'. He noted that in the majority of cases 'parties tend to come to agreement' with respect to what level the value should be set at. Similarly, a Germany-based PA remarked:

"The value-based fees system in Germany works well because it is transparent and it caps the court fees and lawyers' fees - especially for the defendant who knows his liability for these fees."

This comment highlights an important feature of the value-based system in Germany - it caps not only the court fees but also the recoverable private legal costs. This second element - the limit on recovery of private legal costs - provides an incentive to each side to keep their own costs low. It is not yet known whether the UPC system will include a cap on recoverable costs.

One in-house ICT counsel consulted with his colleagues based in Germany about their experiences of the value-based fee system there, and he then related their comments to me as part of the interview process. With regard to positive comments, he stated that the value-based system 'acts as a disincentive' to the kind of 'patent trolling' behaviour commonly found in the US, because 'taking a speculative case against a big player can mean high costs reimbursement'. He noted that another positive of the value-based system is that at the end of the case there is no argument between parties about the amount of costs. He remarked:

"By contrast, it is not uncommon for parties in the UK to spend as much money arguing about the costs award as they spend on the case itself."

With respect to negative comments about the value-based system, the same interviewee argued that the German system does not provide SMEs with adequate incentives to make counter-claims for invalidity in the context of infringement actions, something which in his opinion ultimately favours larger companies. One final thing he commented on relates to case-counting, which works very differently in the UK and Germany.[42] He remarked:

"If 3 parties attack the same patent, these count as three separate cases, even if they are heard jointly... So the loser may have to pay three times. In the context of the UPC this is an important consideration in either multi-party or multi-patent cases, and the Rules of Procedure need to get this right to ensure overall fees remain within reasonable levels."

Will the UPC help to lower the costs of patent litigation in Europe?

With respect to the idea that the UPC will reduce the overall costs of patent litigation in Europe, there is general scepticism amongst stakeholders that this will in fact be the result. Indeed, one in-house Pharma counsel stated confidently that the costs of litigating at the UPC will not, in fact, turn out to be lower than the costs of litigating within the current national systems. He argued that the coming into force of the new system 'will effectively move cases from Germany, where most patent litigation happens, to the UPC';[43] moreover, since, in his view, litigation at the UPC is likely to prove to be more expensive than the current costs of German patent litigation, the overall costs of patent litigation in Europe are likely to go up. In a similar vein, one in-house ICT counsel remarked that 'realistically the costs of the new system will inevitably be higher than they are now'.

Nonetheless, a Germany-based lawyer put forward a dissenting view, arguing that the UPC will, in fact, reduce the costs of litigation in Europe. Crucially, however, she argued that this will only be the case if the UPC litigation costs do not go beyond the current costs of litigating in 1-2 MS, noting that at present most litigated patents are not litigated beyond two European jurisdictions. Similarly, a German-based PA stated that he expects that the UPC fees 'will be lower than the current German fees' - though conversely, he remarked that the private legal costs of litigating at the UPC will probably 'be closer to the UK level' than the lower level currently found in Germany.

42 K. Cremers, *supra*, n 2.

43 As illustrated by K. Cremers, *supra*, n 2, 5, most patent litigation in Europe takes place in Germany at present; moreover, only a relatively small proportion - 8.4% - of EPs are litigated in more than one jurisdiction. It is likely, therefore, that the UPC will take many cases that would otherwise be heard in Germany.

In light of this, and the comments made above concerning the value-based system, it is reasonable to summarise the UPC costs issue as follows: the expectation amongst stakeholders is that the UPC fees will be higher than the current UK fees, but they hope that the fees will not be as high as the current German fees. With respect to private legal costs, some interviewees stated that they fear the private legal costs of taking a UPC case will end up being closer to the high UK level than the comparatively lower German level given the fact that the UPC has a much wider jurisdictional remit than the individual national courts, something that may require a lot of legal resources to be expounded by each side. On the other hand, the absence of lengthy, UK-style oral hearings is likely to keep costs down. It is not yet known, however, whether the UPC will feature a system of capping recoverable private legal costs, something that would give both sides an incentive to keep their own costs down.

The overall costs scenario that stakeholders most fear, therefore, is that the UPC will feature court fees at the German level, or higher, and that the private legal costs will be close to the UK level, or higher. However, given the absence of lengthy oral hearings at the UPC it seems unlikely - though not impossible - that the private legal costs will reach UK levels. Moreover, the benefits of one-stop enforcement (such as the availability of 25 MS injunctions) also need to be taken into account when the costs are considered, as these benefits may make litigation at the UPC worthwhile even if the litigation costs end up being higher than stakeholders hope.

UP renewal fee levels

The crucial importance of the renewal fees issue was emphasised by all interviewees. For instance, one Germany-based PA I spoke to remarked that the key issue for the future success of the UP ‘is this renewal fees issue’. In fact, he argued that ‘this is currently being underestimated in terms of its importance’ by policy-makers.

It is clear from the interview responses, as shown below and as further detailed in the annex, that stakeholders feel strongly that in order to encourage utilization of the UP the level of the renewal fees ought to be set around the 3 MS level (UK + DE + FR). Moreover, any fee level that goes significantly beyond this runs the risk of creating a serious disincentive to utilization of the UP. Indeed, one interviewee argued that the ‘ideal fee’ would be at the 2 MS level - and specifically a UK + DE fee - stating that ‘only that would be a genuine incentive’. He argued that a 3 MS fee would merely be ‘neutral’ since this represents the costs of patenting for most companies in the present system. On the other hand, one in-house ICT counsel stated that her company ‘would like to see a higher renewal fee because higher fees discourage spurious patenting’. Notably, this was a uniquely-held view amongst the interviewees.

With respect to specific figures for renewal fees, one experienced Germany-based PA gave some relevant estimates. As an example, he focused on the 6th year of renewal fees for the UK + DE + FR, which he said amounts to a total of approximately €350, further noting that with the addition of NL + SWE this total would increase to €520. Regarding the proposed UP renewal fee level, he remarked:

“I’ve heard some speculation that the equivalent UP renewal fee will be close to €600.”

In his opinion, this €600 fee would be ‘far too high’ as it goes beyond even the renewal fees of 4-5 MS. For him, the ideal fee would lie between 3-4 MS i.e. not more than €400.

Similarly, one in-house Chemicals counsel stated that if the renewal fee is set at a level above 3-4 MS this will result in there being 'very few UP cases in the system' - something that will not bode well for establishing a strong body of UPC jurisprudence. For him, the crucial issue that policy-makers must take into account 'is that the increased protection is not really worth paying extra for'. Similarly, a German-based PA warned that the UP will probably be seriously under-utilized unless the fee levels are set 'well below the 6 MS fees that have been discussed'.

Indeed, with the exception of the Pharma sector - where the in-house interviewees acknowledged that patenting in all, or a great many, EU MS is relatively common - most interviewees from the ICT and ENG sectors stated that their companies tend to patent in no more than 3-4 MS. In this respect, the representatives from ICT and ENG companies said that their companies typically validate in a selection of the UK, Germany, France, the Netherlands, Sweden, Italy and Spain - with the UK and Germany being relative constants. Nonetheless, exceptions to this do exist: one in-house ENG counsel said that her company tends to patent in only 1-2 MS (UK + DE); meanwhile, another interviewee - also an in-house ENG counsel - stated that her company typically seeks to patent in 7-15 MS, with the larger number of validations coming into play in the case of a highly valuable patent. In addition, the in-house Chemicals counsel I interviewed noted that his company commonly tends to patent in 8 MS.

Therefore, looking at all of the various sectors it is clear that only the Pharma sector would find a renewal fee set far above the 3 MS level - such as at the 6-8 MS level - to be advantageous, since this would still be a significant cost-saving on validating in all the MS separately. Nonetheless, despite this apparent benefit to the Pharma sector, one German-based lawyer I spoke to argued that for Pharma the costs of renewing the patent are not actually the ultimate 'deal-breaker' with respect to prospective use of the UP and UPC; instead, the interviewee argued that Pharma companies are actually willing to pay whatever the necessary fees are in order to secure EU-wide protection, regardless of the cost, because for Pharma these fees amount to a small cost in the grand scheme of things. The interviewee went on to say that the key factor for Pharma with respect to use of the UP is likely to be the UPC's success (or not) in generating a consistent body of case law across the system - only that would persuade the Pharma sector to adopt the UP wholesale.

Patent pruning

Several interviewees noted that many companies, particularly those who patent in only 3-4 MS, tend to 'prune' their patent validations selectively towards the end of patent life i.e. they may choose to drop the validations in the more expensive jurisdictions and simply keep up protection in the cheapest 1-2 MS.

Crucially, with the UP this type of selective pruning will not be possible - a company will either renew the UP entirely or not at all. Thus, keeping a patent 'alive' in the final few years of its life is likely to be more expensive with a UP than with an EP validated in 1-2 jurisdictions (after a couple of the initial 3-4 jurisdictions have been dropped). On this point, an experienced PA I spoke to argued that even if the UP renewal fee is set at the 3 MS level this will not actually provide much of an incentive to use the UP because of the loss of the ability to prune selectively.

Nonetheless, as shown in the annex, while pruning was cited as an important consideration by the majority of interviewees, a substantial minority did not cite it as significant. This indicates that the pruning issue, while a legitimate concern, may not in itself be a 'deal-breaker' regarding use of the UP. Furthermore, to the extent that the loss of the ability to prune selectively creates a disincentive to use the UP, this could be resolved by setting the UP renewal fees at the 2-3 MS level.

The UP vs. the EP

One further point is of interest - a small number of interviewees argued that the UP offers little cost benefit over the EP in light of the 'London Agreement', which reduces EP translation costs.[44] In line with this, an experienced Germany-based PA remarked that the supposed advantages of the UP are currently being exaggerated by its proponents, noting that the current EP 'remains quite attractive because of the London Agreement'. Moreover, a small number of interviewees further stated that any possible benefits of the UP over the EP will be tempered by the fact that although the UP offers wider protection, not all EU MS are taking part in the new system, which leaves the EU patent system partially fragmented.

B. KEY CONCERNS FOR POTENTIAL USERS OF THE UPC

Judicial Composition and Quality

It is crucial that potential users of the court perceive the UPC as being a venue for high quality, consistent decision-making. Many interviewees stated, in fact, that this would actually prove to be the most important factor in their determination of whether or not to use the UPC - more important even than the costs factor. Indeed, all interviewees said that the UPC policy-makers must take the issues of judicial composition and quality very seriously, and that the necessary funds and structures ought to be put in place to ensure proper judicial training.

In this vein, one experienced solicitor I interviewed stated that the training of judges 'will prove to be vital', especially for jurisdictions where there is little or no established history of patent litigation. On this point, one in-house Chemicals counsel argued on a positive note that there is sufficient EU-wide expertise - especially in the major patent litigation states of the UK, Germany and France - available to train the judges. On this issue a very useful point was made by one interviewee - a Germany-based PA - who suggested that analysis of how exactly experts from around 40 EPC MS have been integrated into the EPO Technical Boards could prove to be a useful model for training judges across the 25 UPC MS.

With respect to how the three-person judicial panels are likely to work in practice, one solicitor interviewee stated that that the single experienced visiting judge would probably come to be dominated by the two local judges, stating that 'this inevitably tends to happen within judicial panels'. Meanwhile, some interviewees noted that fears over composition and quality at the local/regional levels could be allayed by establishing strong Central Divisions, so that the jurisprudence of the UPC filters down to the lower divisions, thereby ensuring consistency across the entire UPC system.

44 http://www.epo.org/law-practice/legal-texts/london-agreement/key-points.html

Bifurcation and Injunctions

There is no doubt that businesses - and ICT companies in particular - are worried about how bifurcation will operate at the UPC. Interestingly, in the legal community there is much less concern over bifurcation - it is seen as an 'overblown' issue.

For potential users of the UPC fears over bifurcation are closely linked to concerns that there will be an 'injunction gap' between the infringement hearing and the validity hearing i.e. that a decision to grant an injunction could be issued by a lower court before the patent is officially declared valid by the upper court.[45]

On this issue, several ICT interviewees argued that UPC judges ought to be provided with clear guidelines governing when bifurcation should occur, so that businesses can be reasonably certain, prior to the opt-out decision, about how bifurcation will actually work in practice. Indeed, universally within the ICT sector the interviewees stated that the current draft guidelines are insufficient. However, one experienced solicitor remarked that 'it is probable that there won't be guidelines and that courts will just have discretion regarding when to bifurcate'. Despite this, he argued that the bifurcation 'problem' has been 'overstated' because 'bifurcation is unlikely to happen very often', and that even where it does happen 'section 220(2) is crucial because it allows appeals on procedural matters'.[46]

In a similar vein, one in-house Chemicals counsel stated that he has no fears concerning bifurcation or injunctions, noting that the UPC will not feature German-style mandatory bifurcation; instead, it will feature what he described as 'bifurcation-lite', whereby the judges will have discretion concerning whether or not to bifurcate. He also expressed the view that even where bifurcation does occur in the new system it is likely the UPC will be much quicker than the German courts currently are at deciding bifurcated validity/infringement decisions. This will (hopefully) prevent the dreaded 'invalid, but infringed' scenario from occurring.

Looking at the issue of injunctions more generally, the interview data indicate that the UPC's ability to issue pan-25 MS injunctions is viewed very much as a double-edged sword: those who tend to act as claimants in litigation want the ability to seek pan-25 MS injunctions against their competitors via the UPC, while those who act primarily as defendants fear the consequences of those same injunctions.

Interestingly, a relatively large number of interviewees from the Pharma sector stated that they have either a positive or neutral view of the availability of pan-25 MS injunctions at the UPC. By contrast, in the ICT sector the opposite view is prevalent; for instance, one in-house ICT counsel remarked that because her company tends to act primarily as a defendant in litigation they are currently very concerned about the interplay between bifurcation and the issuing of injunctions at the UPC. Like many other interviewees, she said that her company is taking a 'wait and see' approach towards the UPC on this issue.

45 D. Harhoff, *supra*, n 23.

46 UPC Rules of Procedure, *supra*, n 30.

Patent Troll Litigation and Forum-Shopping

The uncertainty inherent in any new court system is of itself likely to attract NPEs, or patent trolls, to the UPC. On this point, one experienced solicitor remarked that 'patent trolls may like the new system because they like uncertainty'. With this in mind, many interviewees argued that the Rules of Procedure for the UPC must be clarified and finalised as soon as possible to help businesses plan for the new system.

It is also important to note that fears concerning a possible growth in patent troll litigation at the UPC are closely related to the above issues of bifurcation and injunctions, since exploitation of the 'injunction threat' is a common tactic in patent troll litigation.[47] A number of interviewees argued that the patent troll issue has exploded in the US in recent years largely because it is possible to obtain a pan-US injunction from a single regional court. In this vein, one in-house ICT counsel stated that 'there's a big problem with trolls in the US and the new UPC system must avoid this problem'. Indeed, the same interviewee stated that if the ICT sector 'sees trolls getting injunctions in all 25 MS' then the sector will quickly lose faith in the UPC. The positive corollary to this point is that if fears over bifurcation and injunctions can be allayed - ideally, by the setting up of a high quality judicial system across the UPC - the risk of patent troll litigation can probably be minimised.

However, another concern - and one that is closely related to the patent trolls issue - is the question of whether forum-shopping will occur within the UPC system. On this point, one experienced solicitor said confidently that 'there will be competition' between the various local/regional courts under the new UPC system. Nonetheless, he argued that this may not prove to be as problematic as some fear, noting that to some extent competition already exists under the current EPC system e.g. there is competition between the UK courts and the German courts (as well as between the various German courts). Indeed, one Germany-based PA remarked that Germany is a useful comparator since 'there are three major patent courts' in Germany and although 'forum-shopping does occur' within the German system, it does not create major problems. In fact, he argued that the existence of forum-shopping at the UPC will 'increase competition, which in turn will increase the quality of the court system, as in Germany'.

For others, however, the possibility that forum-shopping may occur within the local/regional divisions of the new system raises a lot of concerns. For instance, one in-house ICT counsel remarked that 'litigation is about playing games' and that 'you pick the most difficult forum for your opponent'. In this respect, he stated that the ability to engage in forum-shopping 'is an advantage for patentees, and a disadvantage for potential infringers'. Continuing in this vein, one in-house Pharma counsel stated that his big fear is that the various regional courts will decide 'to compete with each other for business' by becoming very 'patentee friendly' i.e. there could be a 'race to the bottom' in terms of the quality of judicial decision-making. In that context, a patent troll could identify the most 'patentee-friendly' local or regional court, and then seek to obtain a pan-25 MS injunction from that court. A small number of interviewees even drew parallels with the 'US Eastern District of Texas' - a court which is often said to be notoriously 'patent troll friendly'.[48] Interviewees noted that preventing this patent troll/forum-shopping fear from becoming a reality will likely require maintaining close interplay between the local/regional courts and the Central Divisions.

47 C. Helmers and L. McDonagh, *supra*, n 17.

48 C. Helmers and L. McDonagh, *supra*, n 17.

One final point must be made about the risks of patent troll litigation at the UPC. Notably, the rise of this form of litigation in the US is often linked to the absence of the 'loser pays' costs system in that jurisdiction.[49] On this point, one solicitor interviewee argued that with respect to the UPC the NPE/patent troll issue has 'probably been overstated' because, unlike in the US, any potential 'troll litigants' at the UPC 'will be forced to pay their own costs' - something which at present appears to discourage patent troll litigation in the UK.[50] Therefore, while the possibility of obtaining a pan-25 MS injunction at the UPC is likely to attract patent troll litigants - and some forum-shopping does seem inevitable - the presence of the 'loser pays' costs system at the UPC is likely to alleviate the patent troll risk to some extent at least.

Revocations

It is clear that the 'revocation risk' is felt much less keenly in the ICT sector than in the Pharma sector.[51] The reason for this is that in the ICT sector companies tend to hold numerous patents of mid-range value, and as a result the revocation of a small number of patents is unlikely to have a drastic impact on the value of the company's overall portfolio. By contrast, one solicitor interviewee noted that the 'central revocation possibility' is the key worry for his Pharma clients; indeed, one in-house Pharma counsel remarked that being exposed to 'one stop revocation' is very risky for Pharma companies because 'if a key, valuable Pharma patent is revoked this can affect the company's share price considerably'. He went on to explain that in the Pharma field 'a lot of key drugs are based on one big innovation' per product i.e. a key single patent or a few key patents, further noting that 'one bad revocation decision' could have a huge impact on a company's revenues.

There is little doubt, therefore, that establishing a high quality body of revocation jurisprudence at the UPC is of the utmost importance. On this point, it is worth recalling that currently within Europe the UK is seen as the jurisdiction that undertakes the most stringent validity analysis.[52] However, the UPC will not feature the in-depth oral hearings commonly found at the UK's PHC, and will instead operate a 'paper-based' system, featuring relatively short hearings, more akin to the litigation systems of Germany and the Netherlands. Given that there is a substantially higher rate of patent revocation in the UK than in either Germany or the Netherlands,[53] there does appear to be a correlation between the rate of revocation and the type of hearing featured at the court (lengthy and in-depth vs. short and paper-based). For this reason, it is possible that the UPC will be viewed as a more 'patentee-friendly' court than the UK's PHC. Indeed, one interviewee stated that the UPC 'will, on balance, favour rights-holders/patentees' more than potential infringers/competitors.

49 Ibid. See also C. Helmers, B. Love and L. McDonagh 'Is there a Patent Troll Problem in the UK?,' *Fordham Intellectual Property, Media and Entertainment Law Journal* 24 (2014), 509, 509-515, accessible at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2331543

50 ***Ibid.***

51 *None of the interviewees from the ENG sector highlighted revocation as a concern.*

52 *K. Cremers, supra, n 2, 46-51.*

53 *Ibid*.

Could speedy UPC revocations help clear the EPO oppositions backlog?

As noted in the annex, around half of all interviewees stated that the availability of UPC revocation actions is likely to help to ease the EPO backlog. Indeed, one experienced UK PA stated that in order to be successful the new UPC system must 'crack the backlog problem'. However, around a quarter of all interviewees said that they are not confident that the UPC will actually help to alleviate the EPO's opposition backlog. One major reason for this scepticism is that taking a UPC revocation action is likely to prove to be much more expensive than the current cost of opposing a patent at the EPO - something that is likely to mean that many businesses will continue to prefer the EPO route. In this vein, while one experienced solicitor acknowledged that some oppositions may effectively 'move to the UPC', he argued that 'crucially, there will be no easing of the backlog' because 'clients will keep opposing despite the UPC option'. In fact, one in-house ICT counsel remarked:

"The issue is that it will be possible to do both - to file an opposition in the EPO and an invalidity action before the UPC. Opponents are likely to do both especially in important cases."

In light of the above, it is clear that the impact of the UPC in this area will to some extent be tempered by the fact that businesses are likely to choose to use both systems in parallel. Nonetheless, even if opponents do challenge a patent at both venues, provided that the UPC proves itself able to resolve invalidity actions in a speedy fashion, there could well be a net overall reduction in the EPO backlog over the coming years.

A return to the National Patent Systems?

One solicitor interviewee argued that some companies could return to the national patent systems if the UPC develops in a 'problematic' way, though he noted that 'within different sectors different factors are at play'. For instance, he said that in the context of the Pharma industry use of 25-28 national systems within the EU 'may be impractical and too expensive' since Pharma companies patent in virtually all jurisdictions. However, he argued that for those companies which currently only patent in 1-2 jurisdictions there may be a temptation to return to the national systems. If this were to happen, he further noted that the UK IPO would see an increase in patent applications. In other words, he argued that the coming into force of the UPC 'may have the opposite effect than is intended' - that rather than unifying the practice of patenting in Europe, patentees may instead turn away from the EPO and return to the national systems. On this point, a highly experienced solicitor I interviewed argued that the UPC/UP system really 'has to be got right' because 'if the goal is to create greater unity' within the European patent system, getting the new system 'wrong' - by failing to provide a high quality litigation service at a reasonable cost - would have a 'devastating' impact on efforts to achieve this goal of unity.

Regarding the likelihood of companies actually returning to the national systems, an experienced Germany-based PA remarked:

"At the moment the pessimistic users are considering doing this, and it might already have started."

Indeed, one in-house ENG counsel confirmed that her company has already decided to return to patenting solely in the national systems of the UK and Germany. She stated that the key issue for her company in this respect is that in their industry technological innovations tend to have a commercial life of 5-7 years, which means that as a company they need to obtain patents quickly. She noted that if her company files an application at the EPO, the delays 'mean that we often don't get a patent until 5-7 years down the line'. Thus, her company's decision to go national was taken largely because of problems with the existing EPC system - though the interviewee also stated that she is not confident that the UPC/UP system will improve things. Overall, therefore, while it seems that a large scale return to the national system is unlikely, largely due to the costs issue, some companies are keeping this option open.

It must also be stated that despite the existence of some pessimism, many interviewees expressed great hope that the UPC would prove to be a success. Indeed, several interviewees stated that a possible return to the national systems is being contemplated 'only as a last resort'.

C. THE OPT-IN/OPT-OUT DECISION

The Unfamiliar UPC - how to adapt to the new system?

A point that emerges strongly from the interview data is that businesses - in every sector - are generally wary of the new system. Even though the current fragmented system has its problems, businesses and lawyers are at least familiar with it at the procedural and substantive levels. It is known, for instance, that if a company wishes to challenge the validity of a competitor's patent, filing a UK revocation action is a strong statement of intent. On the other hand, if a company wants to obtain an injunction against a competitor for allegedly infringing a patent, taking a case at one of the German regional courts represents the best option. In line with this, one solicitor interviewee argued that under the current fragmented system businesses already possess an adequate EU-wide ability to 'interfere with competitors' wherever the actions of their competitors are infringing.

By contrast, the new system is unfamiliar and it also lacks certainty with respect to its procedures and jurisprudence. For this reason, one solicitor interviewee stated that his clients are taking a cautious view of the UPC. He remarked that 'most would like to opt out and if it is easy to do so they will'. Nonetheless, it is clear that for most businesses the final decision to opt-in or opt-out has not yet been made; indeed, 13 out of 15 in-house counsel I spoke to stated that their companies have not yet made their opt-in/opt-out decision. These interviewees emphasised that no opt-in/opt-out decision can be made until all the details regarding how the UPC will actually work in practice are finalised.

Nevertheless, even though in most cases final decisions have not yet been made, all the in-house counsel I interviewed stated that that their companies are seriously considering opting-out at least some of their patents. However, as noted above, the presence of the opt-out fee means that companies are unlikely to be in a position to opt-out everything in their portfolios. Moreover, the interview data given in the annex show that while all interviewees are preparing to opt-out some or all patents, just over half are planning to opt-in at least some patents e.g. the 'strongest', the 'least valuable' or a 'broad spectrum across the value range'.

With respect to the patentees who are considering opting out only their most valuable patents (MVPs), one in-house Chemicals counsel stated that his company would probably opt-out their 'crown jewel patents'. Nonetheless, he asserted confidently that 'more than 90% of our portfolio will be in'. Regarding the making of this determination, he remarked:

"It's a question of the advantage of being able to get an injunction versus the risk of having a valuable single patent revoked."

The importance of this consideration was confirmed by an in-house Pharma counsel, who stated that Pharma companies would probably opt-out their MVPs due to the pan-25 MS revocation risk at the UPC. However, he said that his company would probably decide to opt-in the patents they hold over consumer/household products because these patents are less valuable and he noted that it would probably not be cost-effective for them to opt out all of these patents given the existence of the opt-out fee.

Meanwhile, all the interviewees from the legal community stated that they expect their clients to opt-out at least some patents, though none said that they expect their clients to opt-out everything. For instance, one German-based lawyer I interviewed stated that she is advising her clients to 'opt out their most valuable patents and test the system with their mid-range value patents'. By contrast, a small number of interviewees stated that it is not a question of whether or not to opt-out a company's MVPs; rather, it is a question of whether or not to opt-in the strongest patents in the company's portfolio. Indeed, one experienced Germany-based PA remarked:

"I advise my clients to opt-in strong patents."

How will an opted-out patent be perceived by competitors?

As noted above, one German PA I interviewed stated that he is advising his clients to opt-in 'strong' patents (to avail of one-stop enforcement), and to opt-out 'weak' patents (to avoid the one-stop revocation risk). This raises the very interesting question of how patents opted out of the UPC will be perceived. On this very point, one interviewee - an experienced solicitor - stated that some of her clients fear 'that an opted-out patent will be perceived as weak, and thus might be attacked by competitors' (via litigation undertaken in one or more EPC jurisdictions). This is an important insight into the way the UPC/UP reforms are likely to alter the European patent litigation paradigm; indeed, the coming into force of the UPC could create a two-tier patent litigation system, with patents that are perceived as being of 'high quality' dealt with at the UPC, and patents that are perceived as being of 'low quality' dealt with by national courts.

Do EU and Non-EU businesses view the new system differently?

One additional point needs to be made regarding the opt-in/opt-out decision: it appears that there is a difference in attitudes to the new system between EU and non-EU businesses. Several interviewees from the legal community stated that their non-EU clients are taking a more positive view of the UP/UPC system than their EU clients are. One interviewee stated that the reason non-EU companies tend to be upbeat about the UP/UPC is that they see the EU as a unitary market, and thus they want unitary protection; EU companies, on the other hand, tend to be more invested in, and more familiar with, the national systems, and thus are more resistant to change.

D. BUSINESS SECTOR ISSUES

Which sector will benefit the most from the new system?

Since Pharma companies tend to patent in all EU MS there does appear be at least one major long-term benefit of the UP for the sector - a 'cost and simplification' benefit. Conversely, this benefit will not be felt so keenly in the ICT sector, because ICT companies tend not to seek EU-wide patent protection; indeed, they often seek protection in only 2-4 MS. Similarly, interviewees from the ENG sector noted that their companies rarely obtain patent validations in more than 3-4 MS, and sometimes only in 1-2 MS. As such, like ICT companies, ENG companies are unlikely to benefit greatly from the wider protection offered by the UP. Nonetheless, a German-based PA argued that the ICT and ENG sectors are still likely to benefit from the UP in the sense that the UP will 'allow more efficient patenting'.

There may also be a benefit for the Chemicals sector since Chemicals companies tend to patent in up to 8 MS (meaning that in some cases it would still be worthwhile to get the UP even if the renewal fees are set above the 3 MS level). On this point, one interviewee remarked:

"For Chemicals the price is key – the costs must not outweigh the benefits."

Overall, therefore, for Pharma companies - and to a lesser extent, for Chemicals companies - utilization of the UP will greatly simplify the process, and cut down on the costs, of obtaining wider patent protection in Europe. However, as noted above, there is also a major disadvantage for the Pharma sector which tempers this - namely, the potential for a highly valuable single Pharma patent to be revoked across 25 MS.

Despite the revocation risk Pharma is likely to benefit from the ability to enforce the UP centrally at the UPC. For instance, one German-based lawyer stated that Pharma will benefit from the ability to get a 25 MS-wide injunction. Conversely, as noted above, the great fear in the ICT sector relates to the 'injunction risk' (and the related concern that there will be a growth in patent troll litigation at the UPC). Indeed, one interviewee noted that Pharma may benefit more than ICT precisely because 'there is less risk of troll litigation in Pharma' than in the ICT sector. Nonetheless, the same interviewee argued that overall the UPC is likely to benefit all patentees, including ICT and ENG patentees.

So while it can be observed that the UPC 'revocation risk' is a major fear for the Pharma sector, a clear benefit can be seen for Pharma with respect to obtaining wider protection, more efficiently and for lower costs via the UP. To some extent this appears to be the view in the Chemicals sector as well, though the renewal and litigation costs remain a major concern. For the ICT sector, the wider protection offered by the UP is somewhat welcome, though the interviewees stressed that the wider protection is not worth paying more than a 3 MS renewal fee for. More importantly perhaps, the ICT sector appears to be very wary of the combination of the 'bifurcation/injunction risk' and the 'patent troll risk'. Companies in the Engineering sector, meanwhile, appear to be fairly ambivalent towards both the UPC and the UP, and they are undertaking a major review of the costs involved before committing to either.

SMEs in the new system

With respect to SMEs, three key concerns came up in the interviews - cost, the revocation risk, and the injunction risk. Regarding the costs of the UPC, the in-house ICT SME counsel stated that 'the costs associated will be fundamental in deciding whether it is worth going down this route'. This was also noted by a UK PA I interviewed who remarked:

"The main issue for the SMEs is cost."

As part of the discussion of the value-based system, a total of 7 interviewees - 2 in-house counsel (1 Pharma SME and 1 Pharma) and 5 lawyers - noted that some form of value-based system could benefit SMEs. For instance, a German-based lawyer I interviewed argued that the value-based fee system could help to encourage SMEs to use the system - provided that the parties can agree to set the fees at a low value.[54] Similarly, an experienced solicitor remarked that the value-based fee system will give SMEs 'the option of using the court at a reasonable cost'. This was echoed by an experienced patent attorney I interviewed who stated that the value-based fee could prove to be beneficial to SMEs if in practice it works to 'cap' fees for low value cases. On this point, it must also be noted that if the value of the case does not reach the value-fees threshold, only fixed fees will be payable - something that may give SMEs the option of litigation for lower value cases (provided that the fixed fees are set at a level that SMEs can afford).

On this point, one PA I interviewed stated that the idea of a 'small-claims track' (SCT) for the UPC, similar to the one that has been successfully brought into the UK Intellectual Property and Enterprise Court (IPEC), ought to be explored by the planners/organisers of the new system.

However, the in-house Pharma SME counsel I interviewed stated that she is sceptical of the usefulness of the value-based fee in this regard. She said that SMEs tend to be risk-averse and litigation-averse, noting that 'SMEs tend not to go to court at an multi-jurisdictional level unless the case is of high value, so a value-based fee may not benefit SMEs that much'. She further remarked that Pharma SMEs 'tend not to go to court at all for low value claims'. Indeed, while she acknowledged that some SMEs would be open to the idea of a UPC SCT for SMEs, she nonetheless stated that she did not think that her firm would necessarily choose to avail of it, given that they seek to avoid litigation wherever possible.

With respect to the UP, the level of the renewal fees is of significant concern to SMEs in the UK and elsewhere in Europe.[55] One UK PA I interviewed remarked:

"Most SMEs are looking to protect their inventions in a small number of member states… the UP is likely to be more expensive than the current system for SMEs."

54 A similar point is made in Bardehle Pagenberg, 'Unitary Patent and Unified Patent Court,' (2013), 1, 19.

55 On the issue of SMEs and renewal fees, the PA firm EIP recently published a paper noting that generally SMEs validate and renew patents in fewer MS than larger companies - EIP, 'Europe's unitary patent system: a horse designed by committee,' (January 2014), 1, 1-13.

With respect to specific fee levels, the in-house Pharma SME counsel stated that setting the renewal fee at the 3 MS level 'would create a very powerful incentive for SMEs to use the UP'. Similarly, a UK PA I interviewed also argued that a 3 MS fee would certainly provide an incentive to SMEs; but he warned that any fee over the 3-5 level would actually create a serious disincentive to use the system. Indeed, from the above analysis it appears that the absence of either a fee set at the 3 MS level - or alternatively, a reduced fee system for SMEs - there is likely to be serious a lack of incentives for SMEs to obtain UPs.

Regarding the revocation risk, the in-house Pharma SME counsel I interviewed remarked that 'there is a strong culture of risk aversion amongst SMEs... and the possibility of a patent being revoked is worrying'. She stated that if an SME were to have a patent revoked within the UPC system 'this could be fatal' to the company's finances. As a result, she argued that Pharma SMEs ought to seriously consider opting-out their MVPs. Similarly, the in-house ICT SME counsel remarked that 'it will be necessary to assess the strength of the patent concerned to ascertain its suitability for use in a potential bifurcated process.' He argued that unless 'there is clear guidance provided to Courts and judges that will deliver consistency, it is likely that my company's strategy will be to wait and see before risking valuable company intellectual property to courts and proceedings where the outcome is uncertain or of variable quality.' In particular, he said that in the absence of clarity regarding the procedures of the UPC - and with fears over the quality of decisions - 'risking "crown jewel" patents to the system may be hard to justify'. On a more positive note, while he noted that there would inevitably be a period of uncertainty at the beginning, he remarked that 'with up front guidance and directions, this period hopefully will be kept to a minimum, and users will be able to get involved with the system earlier and with confidence as to the quality of the decisions'.

With respect to the interplay between EPO oppositions and UPC revocations, the in-house Pharma SME counsel stated that for SMEs 'it is not necessarily a good thing that revocation can happen more quickly at the UPC than at the current EPO hearings'. The reason for this is that for an SME - especially if it is seeking investment - having a patent application listed as 'pending opposition' is generally seen in a more positive light than having applied in earnest for a patent which was then speedily revoked.

Regarding injunctions, one solicitor interviewee stated that 'SMEs are very concerned about the possibility of pan-EU injunctions'. He noted that while the impact of such an injunction would merely reduce revenues at a large multinational company, and perhaps affect the company's share price, the impact of a pan-EU injunction 'would be absolutely devastating for an SME'. This point was echoed by an experienced in-house ENG counsel, who stated that 'a pan-EU injunction would be fatal to most SMEs – they could not survive it'. Conversely, while the in-house Pharma SME counsel acknowledged this risk, she nevertheless argued that SMEs do, in fact, want the ability to obtain such pan-25 MS injunctions against competitors/potential infringers.

SMEs, therefore, share many of the primary concerns of the larger companies regarding the UPC. However, the major difference for SMEs viz. larger companies is the scale of the risk involved. The revocation risk is substantial for SMEs because the loss of a single patent across 25 MS could prove to be fatal to a company's prospects. Similarly, if a European SME is hit with a pan-25 MS injunction preventing one of its products being sold in the EU, this too could be a fatal blow, as an SME is less likely to have a strong foothold in other large markets such as the US and Asia - something that would cushion the revocation blow for larger companies. Nonetheless, SMEs do see potential positives in the new system - particularly with respect to the ability to centrally enforce their own patents at the UPC - provided that the UPC fees are set at a reasonable level.

Are stakeholders in the various sectors well informed on the UPC/UP?

Stakeholders - with no apparent difference between sectors - appear to be well informed about the UPC/UP. Indeed, most interviewees noted that they have access to at least some official UPC documents accessible online, including the draft UPC Rules of Procedure. Furthermore, several interviewees stated that the UK IPO had presented them with additional information.

Location of the Central Divisions

With respect to the London-based UPC Central Division, all the in-house Pharma counsel stated that this is a positive of the new system. Moreover, one experienced solicitor argued that the existence of the UPC division would benefit the Pharma sector since 'there's a great deal of expertise in London'. He stated that 'London is a centre of excellence' in the Pharma patent field and that the location 'is likely to be influential' in this positive way 'even if the panels don't feature a majority of English judges'.

Conversely, the non-Pharma interviewees stated that they have some minor concerns about the locations of the other courts. For instance, one in-house ENG counsel stated that she 'is a little concerned' that the Munich Central Division 'might bifurcate more than the other divisions', but overall she acknowledged that this is not a major worry. Similarly, some interviewees from the ICT sector stated that they are worried about how the Paris Central Division will operate. Nonetheless, a large proportion of interviewees stated that they do not think that the location of the court will prove to be of great importance given that the judicial panels will consist of judges from a variety of different countries and legal/technical backgrounds.

E. HOW WILL THE CHANGES AFFECT THE LEGAL COMMUNITY?

One solicitor interviewee remarked that 'the UPC will bring big changes to the law profession' noting that 'most major industries are global, and multi-national litigation has become the norm'. He argued that all law firms 'will have to engage with the UPC' and that 'the British and the German firms will probably come to dominate' at the expense of firms in other territories - including even in France - since English is likely to become the dominant language of litigation at the UPC. This point was also made by a Germany-based lawyer I spoke with, who noted that 'there won't be a great change for a German lawyer other than English becoming the main language of patent litigation, as clients will likely expect their lawyers to plead in English'. She noted that this will be a major challenge for the older generation of German lawyers, who may be unwilling to spend time mastering the English language.

With respect to patent attorneys, an experienced Germany-based PA stated that the PA's job would not change much. However, he noted that 'for advocates, litigators and judges there will be a great deal of change' as the new system will establish, for the first time, EU-wide competition in litigation. He further remarked:

"Since the EPC came into force there has been EU-wide competition for PAs, but the litigators are not used to it, and it will come as a bit of shock to the system."

Continuing with the idea of competition in the litigation field, another German-based PA I interviewed stated that large law firms would probably benefit from the UPC reforms more than smaller ones, noting that the tight time schedule envisaged by the UPC will require a great deal of resources, and especially manpower, to be expounded, noting that 'only large firms will have these resources'.

Two solicitor interviewees noted that members of the UK IP Bar would probably struggle to adapt to the UPC. They argued that solicitors are probably better placed to work within the UPC system than barristers are because the UPC will operate 'a continental-style, paper-based system', featuring short hearings rather than the in-depth hearings that frequently take place at the PHC.

Both of the UK PAs I interviewed stated that their jobs would probably become more complex, and that costs for PA firms would inevitably rise. For instance, one PA interviewee argued that the new UPC system would increase costs for PA firms, and that firms may have to absorb some of these costs (though he acknowledged that some would inevitably be passed on to clients). Moreover, he remarked that for PAs the amount of work 'is likely to increase' since a 25 MS UP will mean 'there are many more countries to monitor', further noting that 'examining diligent use within all of these member states will be a huge challenge'. The same interviewee stated that for some PAs there may be a big change in terms of representing their clients in court - though he acknowledged that the rules for when and how patent attorneys (as opposed to solicitors/barristers) may represent their clients before the UPC have yet to be finalised.[56] Indeed, a further two non-PA interviewees remarked that it is important that PAs have the right to represent their clients at UPC hearings, stating that this would be of great benefit to their profession.

56 A consultation is currently taking place on the issue of legal representation before the UPC and related certification issues. The Legal Working Group of the Preparatory Committee's proposal is accessible at http://www.unified-patent-court.org/consultations/76-european-patent-litigation-certificate-draft-proposal-and-public-consultation

4. KEY OBSERVATIONS AND RECOMMENDATIONS

A - Observations and Recommendations - the UPC

Observation A1 - Judicial composition and quality at the UPC

The issues of judicial composition and quality are crucially important for three major reasons: first, there are substantial concerns over bifurcation and the granting of injunctions - concerns that are felt particularly keenly by companies in the ICT sector (though much less by those in the Pharma sector); secondly, the possibility that a valuable single patent could be revoked across 25 MS is a major concern, especially for Pharma companies (though this concern is felt much less by companies in the ICT and ENG sectors); and thirdly, forum-shopping is likely to occur, to some extent at least, within the UPC - and companies in all sectors have concerns about the maintenance of common standards across the 25 MS UPC, especially with respect to local divisions operating in jurisdictions that do not have an established history of patent litigation. Those in the business and legal communities are unlikely to support the UPC unless the judges make consistent, balanced decisions. In this respect, the concerns that interviewees have about bifurcation, injunctions, revocations and forum-shopping can only be alleviated by effective judicial decision-making. The process of sorting out applications and making judicial appointments is currently ongoing - everyone involved in the setting up of the UPC ought to be aware that the primary imperative must be to establish a high-quality judiciary across the entire UPC system.

Recommendation A1 - Judicial composition and quality at the UPC

Establishing and maintaining judicial quality across the UPC can be achieved by (a) co-ordinating and training judges and (b) via the composition of strong judicial panels. Learning lessons from the way experts from around 40 EPC MS have been integrated into the EPO Technical Boards could prove useful for the task of training judges across the 25 MS.

Observation A2 - Litigation costs

It must be noted that several interviewees stated that the UPC fees issue is generally of less concern to stakeholders than the issue of UP renewal fees. At the same time, several interesting points emerge from the interview data with respect to costs. While some interviewees expressed the hope that the UPC will lead to lower overall costs for patent litigation in Europe, several other interviewees stated that they fear that the costs of patent litigation in Europe will in fact increase. Two things are of significance here - the court fees and the private legal costs. With respect to court fees, some stakeholders feel strongly that the UPC fees ought not to be as high as the current German fees - though others accept that combined court fees of around 1-2 MS (typically the UK and Germany) would be reasonable. With respect to private legal costs, if the UPC costs system places a cap on cost recovery, this would provide each side with an incentive to keep costs down. Further to this, the absence of lengthy, UK-style oral hearings at the UPC is likely to keep costs to a relatively low level when compared with the current UK legal costs.

Even so, some interviewees stated that the private legal costs of litigation at the UPC could still end up being quite high, given the wide remit of the court's jurisdiction, and the amount of resources that will need to be expounded in order to meet the short deadlines required by the court.

Recommendation A2 - Litigation costs

The court fees issue needs to be handled very carefully. If, as one interviewee argued, all the UPC is going to do is to move European patent litigation from the German system to the UPC, and the UPC fees end up being higher than the current German fees, then the overall court fee cost of litigation within the EU will go up. With respect to private legal costs, the UPC planners ought to explore whether a cap on recoverable legal costs would be workable in the context of UPC litigation. Other than that, there is little the organisers can do about private legal cost levels. By contrast, the organisers do have the power to set the court fee levels, and by setting the UPC fees at a level ideally below, and at the very least not above, the current German fees, the organisers can create considerable goodwill amongst potential users of the UPC - and create confidence that the UPC will indeed lower the overall costs of patent litigation in Europe.

Observation A3 - The opt-in/opt-out decision

It is difficult for patentees to make a decision on the opt-in/opt-out until all the procedural and costs/fees details have been finalised. Nonetheless, it appears likely that initially many patentees will seek to opt-out their MVPs, while keeping low and mid-range patents within the UPC system. On the other hand, some lawyers are advising their clients to opt-in 'strong' patents, something that could create a perception that opted-out patents are 'weak'. Importantly, the opt-out fee is disliked by patentees because it effectively means that patentees have to pay not to use the system. Indeed, the importance of this fee level cannot be overstated - it will determine whether patentees will be able to opt-out merely some, or all, of their patents from the UPC. Patentees want the opt-out fee to be set at an administrative level and for there to be a discount for bulk opt-outs. For the planners/organisers of the new system this represents a great challenge - if the fee is set too high, it will greatly annoy patentees; but if the fee is set too low, patentees may decide to opt-out their entire portfolios - which would leave few cases at the UPC.

Recommendation A3 - The opt-in/opt-out decision

The final rules of procedure and costs details must be confirmed as soon as possible, well in advance of the start date for the UPC (currently not before the end of 2015) in order to allow businesses to be able to make their opt-in/opt-out plans. The opt-out fee itself ought to be set at an administrative level. The UPC organisers should also strongly consider providing a discount for bulk opt-outs. Further to this, it is important to note that if the planners set a high UPC opt-out fee with the intention of forcing patentees into the system this is unlikely to create goodwill - something that the court will inevitably rely on during its early days. Instead, all efforts should be made to set up a cost-effective, high quality court system, in line with recommendation A1 above, so that patentees have a positive reason to opt-in to the system.

Observation A4 - Patent trolls

The UPC could be more attractive to NPEs, or patent trolls, than the current fragmented European system is. Patent trolls are likely to attempt to take advantage of the uncertainty that will necessarily come with the setting up of a new, untested court system. The possibility of obtaining a pan-25 MS injunction against e.g. an ICT firm is also something that could be attractive to patent trolls. In addition, ICT companies are concerned that if forum-shopping occurs within the system, some local/regional courts may attempt to attract business by becoming overly patentee-friendly. Conversely, a small minority of interviewees stated that the availability of forum-shopping may actually increase the quality of the system, if it works as it currently does in Germany. Moreover, several interviewees from the legal community stated that the risk of patent troll litigation has been 'overstated'; indeed, the patent troll risk is somewhat mitigated by the presence of the 'loser pays' system at the UPC.

Recommendation A4 - Patent trolls

The very existence of (a) a new and uncertain court system and (b) pan-25 MS remedies at that court is likely to attract patent trolls. There is not a lot the UPC organisers can do about either of these factors. Instead, in order to prevent trolls becoming an issue for the UPC, the organisers must concentrate on maintaining judicial quality across the system in line with recommendation A1.

Observation A5 - A return to the national systems?

A large scale return to the national patenting systems seems unlikely, except for a small minority of patentees. The major reason for this is that the national route is, by comparison, highly expensive. Nonetheless, if the UPC/UP system develops in a way that patentees do not like, it is possible that they will exercise this option once the transitional period ends and the opt-out option is no longer available.

Recommendation A5 - A return to the national systems?

Even though the national route is expensive, if the new system develops in a problematic way, patentees will be tempted to go national - even if only for their most valuable patents. Again, the only way to prevent this from happening is to establish a high quality court system - in line with recommendation A1.

Observation A6 - UPC revocations

The EPO backlog is seen as a problem, but there is general scepticism amongst stakeholders that the existence of UPC revocation actions will help to substantially ease the backlog. Indeed, it is likely that there will be parallel litigation i.e. those who seek to challenge patent validity will both oppose patents at the EPO, which will be a lengthy process but a cost-effective one, and take action at the UPC, which will be speedy, but more costly. Despite the existence of parallel actions/oppositions, there is likely to be a net reduction in the EPO backlog, provided that the UPC can deliver high quality, speedy decisions.

Recommendation A6 - UPC revocations

Keeping the costs of litigation at the UPC to a minimal level (as per A2 above) will encourage revocation actions - which should in turn help to (partially) ease the EPO's opposition backlog. At the same time, the considerations made in A1 above are important - patentees will lose trust in the court if patents are perceived as being revoked too easily at the UPC.

Observation A7 - SMEs at the UPC

The costs of the new system are likely to hit SMEs the hardest. Moreover, although all companies will be concerned about the quality and consistency of judicial decision-making at the UPC - particularly in the context of revocations and injunctions - the scale of the risks involved is greater for SMEs. As one interviewee noted, an injunction granted against an SME could be fatal to its business prospects. The value-based fees system could benefit SMEs. However, this will prove worthless if SMEs decide that the risks of opting-in to the system are simply too high. This is a particular problem since SMEs tend to be risk-averse and litigation-averse.

Recommendation A7 - SMEs at the UPC

As noted above in A1, ensuring consistent standards are maintained across the UPC will give all companies, including SMEs, confidence in the system. However, in the early days SMEs are likely to take a very cautious view of the court. It is recommended that once everything is finalised a guide to the UPC's costs and procedures - tailored to the concerns of SMEs - should be drawn up and provided to SMEs, free of charge. Furthermore, the planners should explore ways of ensuring that the value-based fees system makes the UPC accessible to SMEs. This could include the incorporation of a small-claims track into the system. However, given the fact that SMEs tend to be 'risk averse', and they tend to avoid litigation where possible, as part of this exploration the organisers should also consider the normative possibility that efforts to encourage SME litigation at the UPC might actually create incentives to litigate that were not previously there.

Observation A8 - London's Central Division

There is a general expectation among stakeholders that the London-based court will prove to be a good thing both for the legal community in London, and for Pharma more generally. London is seen as a hub of expertise in the Pharma-legal area, and the UPC will add another important institution to this environment.

Recommendation A8 - London's Central Division

A high quality court in London must be set up, featuring accessible facilities. The successful set up and launch of the Rolls Building in 2011 ought to be a model for the setting up of the London UPC division.

B - Observations and Recommendations - the UP

Observation B1 - Renewal fees

If the costs are set at a reasonable level the wider protection provided by the UP will be viewed in a positive light. Nonetheless, the interview data suggest that for many businesses, particularly in the ICT and ENG sectors, the wider protection is not considered worth paying increased fees for. The exceptions to this are the Pharmaceutical and Chemicals sectors, where the wider coverage provided by the UP is welcomed even if the overall fees for renewing patents increase. Several interviewees from the ICT and ENG sectors argued that a fee set at the 3 MS level (UK, German and French renewal fees combined) would provide a reasonable incentive to use the system - both for large companies and for SMEs. A fee set above this level may lead some companies to continue to use the existing patent routes rather than applying for UPs. Further to this, when considering renewal fees it is important to consider the issue of 'selective' patent pruning, as this will not be possible with the UP. Some interviewees stated that this is a negative aspect of the UP, as it may add to the cost of maintaining a UP viz. the EP. Notably, the EPO states that with respect to patent fees the existence of 'harmonised fee policies at the European level could help to avoid low-quality applications'.[57] This implies that the EPO may view higher fees as a way of discouraging low-quality applications. While this argument has some merit, achieving the goal of discouraging low-quality applications must not lead to the imposition of an overall UP fees regime that leads patentees to turn away from the UP before it even comes into existence - particularly if the genuine goal of the UP is to create more unity in the EU. Having said that, there are, of course, other considerations relevant to the setting of fees. It is debatable whether a view that focuses solely on the renewal fee levels fully takes account of the direct and indirect benefits of the wider coverage provided by the UP, or the potential savings on administrative costs that could result from the use of a more efficient, simplified patenting process.[58] Indeed, there may be scenarios where the total costs to ICT and ENG firms end up being lower under the UP even with a renewal fee set higher than the 3-4 MS level. For instance, the IPO's recent impact assessment report raises the possibility that holding a UP, as opposed to a bundle of EPs, may create the potential for better access to finance for companies as it may be seen as a more valuable asset.[59] Nonetheless, until the UP becomes a tangible reality it is difficult for ICT and ENG to gauge the overall benefits of the UP, which is why their current focus is on the renewal fee level.

57 EPO, *supra*, n 27.

58 Intellectual Property Office, 'Unified Patent Court Implementation - Unitary Patent: Impact Assessment' (March 2014), 10-12; accessible at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317641/IA_UPC_Implementation_Unitary_Patent.pdf

59 *Ibid*.

Recommendation 1 - Renewal fees

Several respondents expressed the view that the UP ought to be made 'cost neutral' for patentees. Since most ICT and ENG interviewees stated that their companies do not seek protection in more than 3-4 MS, the 4 MS level could be seen as the ceiling for some companies' willingness to pay (though the renewal fee level is seen as less important within the Pharma and Chemicals sectors). Consequently, setting the fees above the 4 MS level may dissuade some companies from applying for UPs in the early days of the new system. In addition, even setting the fees at this 'cost neutral' level may not provide ICT and ENG patentees with an actual incentive to use the new system, when considered from a purely financial perspective i.e. without taking into account the positives that may result from a more efficient patenting administrative system, and other indirect benefits which may arise that are at present difficult to predict.[60] In light of this, my recommendation is that the UP planners and policy-makers should note the strong view expressed by many interviewees that the UP renewal fees ought to be set at the 3 MS level so that businesses (including SMEs) have a genuine spur to use the new system. By setting UP renewal fees at the 3 MS level the planners/organisers of the new system could - even before the new system comes into being - create confidence amongst potential users that the new system will genuinely reduce the costs of patenting in Europe.

Observation B2 - UP Member States

There is disappointment among stakeholders that the UP doesn't cover all EU MS. Moreover, until the system covers all of the EU's 28 MS the new system is doomed to at least partial fragmentation - the exact problem the system is intended to solve.

Recommendation B2 - UP Member States

My recommendation is that the UP and UPC should be expanded as soon as possible to include all EU MS. Although achieving this seems unlikely in the short time given the current intransience of Spain and Poland, this is a realistic medium-term aim once the new system is successfully up and running. Moreover, given the fact that the EU is increasingly seen as a unitary market (especially by non-EU companies) it is an imperative that the UP/UPC reforms are expanded to encompass every MS.

60 *Ibid*.

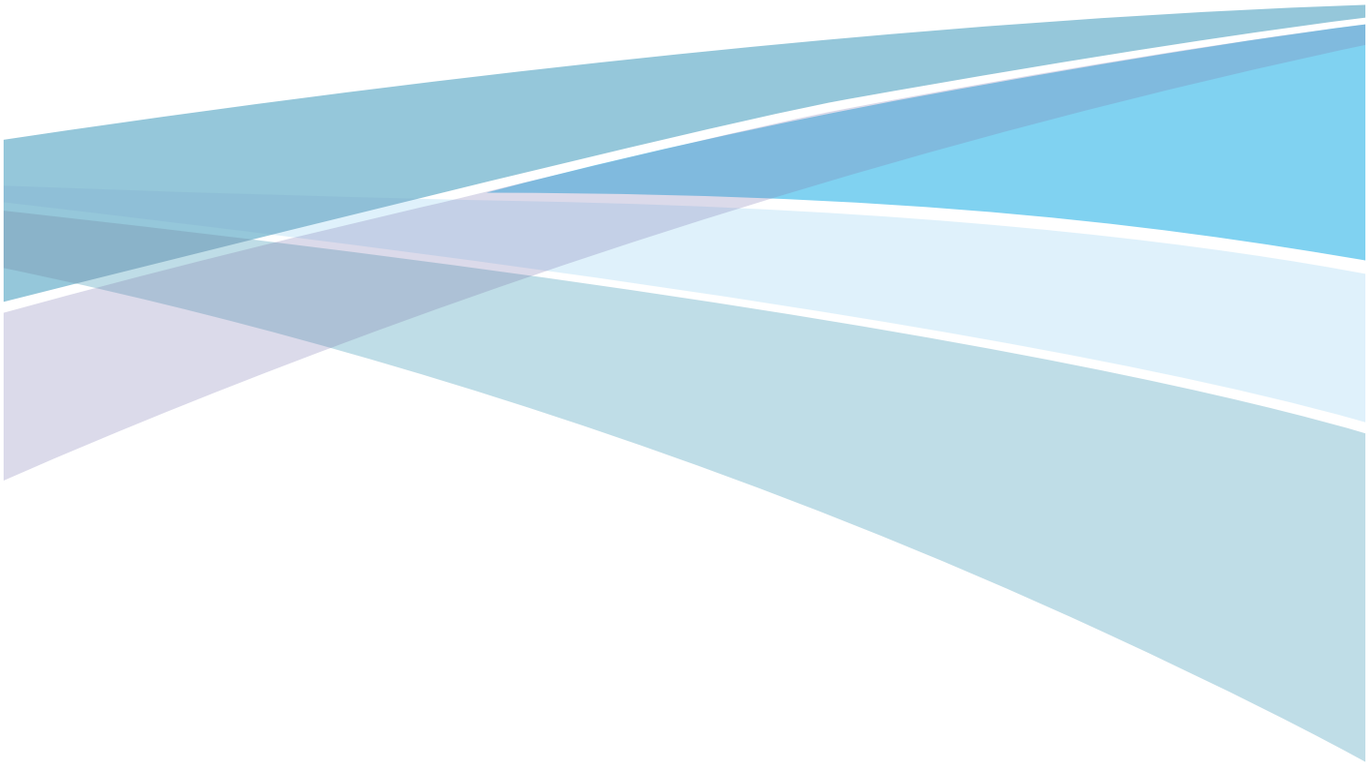
C - Observations and Recommendations - the legal profession

Observation C1 - Changes for the legal profession

Regarding the effect the reforms will have on the legal community, it seems that the language requirements of the UPC/UP are likely to suit English-language firms. This will be of primary benefit to UK law firms, but German law firms are likely to also do well out of the new system. Moreover, the UPC will create for the first time genuine EU-wide competition in the area of European patent litigation. The emerging view is that larger firms will benefit over smaller firms due to the amount of resources required to conduct speedy patent trials. Moreover, in the UK context the fact that the UPC will utilize more of a paper-based system, with short hearings - rather than UK-style in-depth hearings - is likely to benefit solicitors more than barristers. PAs expect that there will be an increase in costs for PA firms. Furthermore, UK PAs are currently seeking clarification over the right to represent clients at the UPC.

Recommendation C1 - Changes for the legal profession

Clarity should be given to UK PAs over their right to represent clients at the UPC - ideally PAs should be able to represent their clients at the venue.



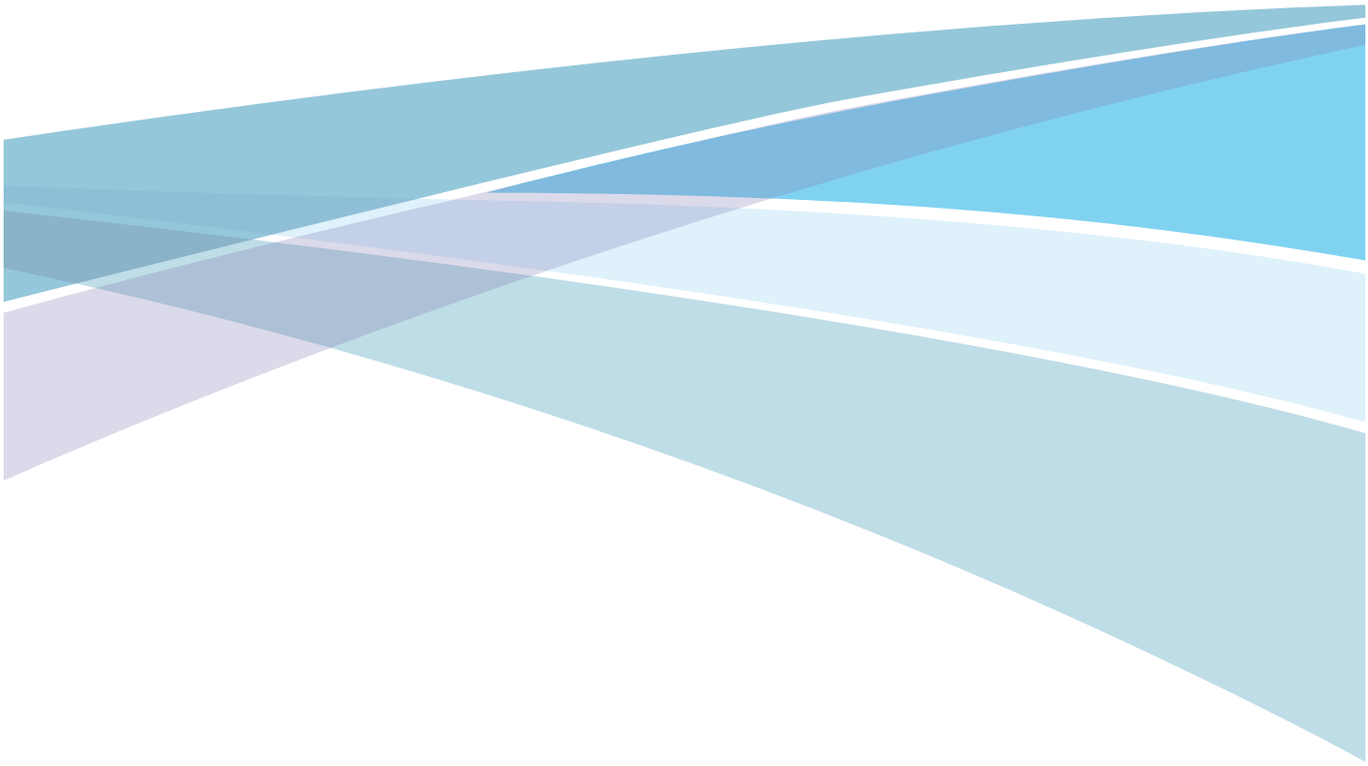
5. CONCLUSION

The UPC and UP reforms represent the biggest changes to the European patent system since the coming into effect of the EPC in the 1970s. Of particular importance is the fact that the UPC aims to unify European patent litigation - which currently works on a fragmented, national basis - by providing a one-stop enforcement system. The data presented in this report demonstrate that the impact of these changes is likely to be felt far and wide within the business and legal communities, and that patentees are likely to be wary of the uncertainty that comes with any new system.

At the present time it is clear that the potential users of the new system possess both great hopes and great fears about the changes that will come with UPC and UP - with the fears (increasing costs, greater complexity, more patent troll litigation) seemingly outweighing the hopes (lower costs, one-stop enforcement). However, one thing that emerges strongly from the interviews is that many of these hopes, expectations and fears are not set in stone; they are contingent on a number of as yet to be decided issues, including what the exact UPC Rules of Procedure will be and what the precise fees for using the UPC and UP will amount to. As such, the planners/organisers of the new system ought to take the views of the stakeholders surveyed in this report very seriously if they wish to both harness the real, yet fragile, goodwill that exists towards the UPC, and allay the major fears about the new system in the minds of the system's potential users.

In particular, the crucial thing the planners must do is to set up a high quality system of decision-making across all of the UPC's divisions. The necessity to do this is confirmed not only by the interview data examined in this report, but also by a recent study undertaken by Powell Gilbert which confirms that 'the technical capability of judges' and 'the quality and predictability of decision making' are the most important considerations for potential users of the UPC.[61]

61 Powell Gilbert, 'Responses to UPC Survey 2014' (March 2014), question 12.



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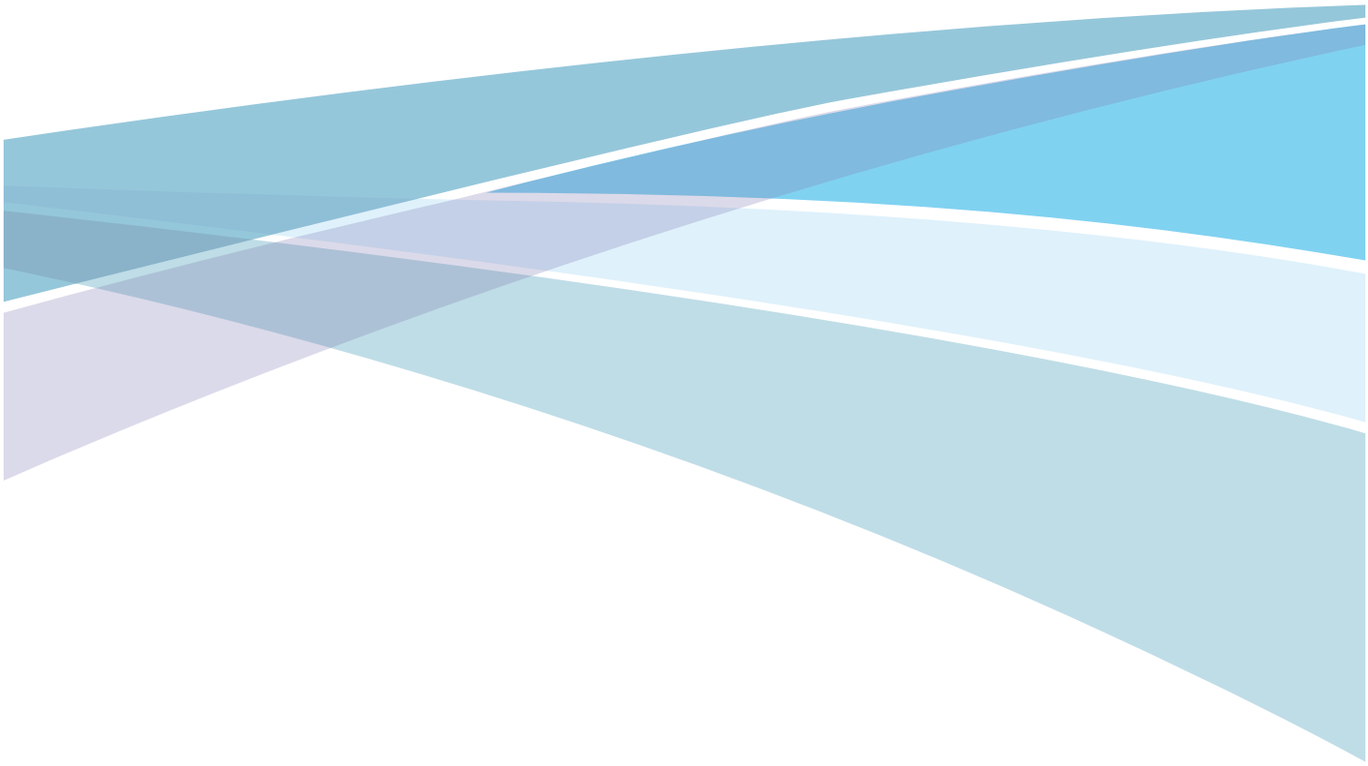

7. ANNEX - INTERVIEW QUESTIONS

It is important to note that although 26 interviews took place, there were actually 28 interviewees since 2 interviews were dual interviews, in which the co-interviewees largely shared the same views (they merely demonstrated different levels of expertise/experience in their explanations). Moreover, both dual interviews involved in-house ICT counsel. For this reason - and so as to not skew the data towards the one sector over others - these interviews are counted as being of 'one perspective' in the analysis given in this report.

A - Interviews 1-4

REVISED PROVISIONAL INTERVIEW QUESTIONS

A - General Questions For Lawyers And Non-Lawyers Alike -

1 What, in your opinion, would be the perceived advantages of both the new Unitary Patent and the proposed Unified Patent Court system? [EG encouraging investment from outside Europe? One-stop shop]

2 What would be the potential benefits to businesses? Do they include competitive advantages or disadvantages in this regard?

B - Specific Questions For Lawyers – Solicitors/Patent Attorneys -

3 (a) As a solicitor/patent attorney, how do you see your job changing as a result of the new Unitary Patent reforms?

(b) - What specific issues concerning the UP/UPC are of concern to solicitors/patent attorneys e.g. right to appear before the UPC?

The Opt-In/Opt-Out Option

4 As far as you are aware, are your clients considering the opt-out? [Provide definition where appropriate]. From the business point of view, what are the risks that you see of applying for a Unitary patent viz. the current European Patent system?

5 What sorts of considerations are patent attorneys making them aware of i.e. what factors would influence their decision to opt out?

6 Alternatively, what factors would give them greater reason to opt in?

7 Are patent attorneys concerned about the practical workings of the system e.g. how injunctions will be granted, bifurcation etc? Are you aware that your clients are concerned?

8 Are there any other factors that will influence your company's decision to opt in/out? [prompt on judicial composition if necessary]

Patent Fees

9 The Unitary Patent will help inventors to protect their inventions, including potentially benefiting from licensing arrangements in all the participating jurisdictions (25) at much lower cost.

(i) If the fee were set at the equivalent of a bundle patent renewed in 3 participating countries (UK DE and FR) do you think this would affect your clients' uptake of the Unitary Patent?

(ii) If the fee were equivalent to 8 countries do you think this would affect your clients' uptake of the Unitary Patent? If so, how?

10 With respect to applications, do you think the Unitary Patent will affect costs for your firm? If so in what areas (renewal / administration / enforcement)

11 In your experience as a patent attorney, do clients have a demand for protection in up to 25 member states? Why, in your opinion, is this greater protection important (or not important) to your clients?

12 How important are renewal fees in your clients' patenting strategies? Compared to other factors? Why?

13 Should increasing the level of annual renewal fees be used as a way to encourage patents which are not being exploited or generating an income to be dropped from the register [so others can commercialise or innovate]?

14 What would be your ideal level for a reasonable UP annual renewal fee?

15 Would the protection provided by a Unitary Patent or the costs involved (eg no option to let protection lapse in certain countries) alter the time you might keep the patent in force?

Court Fees

16 How important are court fee levels to your firm and your clients? For instance, if the initial court fee for filing an infringement claim were set at the equivalent to filing a case in 4 or 5 of the Signatory States would this encourage your clients to use the system? Would you consider this correct, too low or too high? Will the level of fees affect spurious claims? If so, how?

17 If this court fee were set at the equivalent 8 or 9 of the countries, would this discourage legitimate claims from being taken?

18 The UPC fees will be made up of both fixed fees and after a certain threshold a value based fee. What do you see as the pros and cons of this sort of system?

19 You were asked above about whether the level of initial court fee is of significance to your firm and your clients? How does this compare to the significance of the private legal costs involved?

20 Which sector of business e.g. pharma, engineering, technology do you think will benefit the most from the new system? Which do you think will benefit the least?

21 Do you think there will be a 'typical stakeholder' who will seek to use the new system?

C - Specific Question For Pharma Companies

22 Do you see any benefits or costs for the pharmaceutical sector in having?

(i) a Unitary patent

(ii) a specialised divisional court for pharmaceuticals/chemicals located in London?

D – Other Questions (Suggestions Made By Interviewees) -

23 Is there anything else you think is of significance to the current UP/UPC debate?

Two questions were suggested during the initial pilot interviews. Both were included in the eventual list of interview questions for the full project:

– "Does the issue of the delays/backlog at the EPO concern you? Could the fact that the UPC does not have to stay proceedings pending EPO opposition help to ameliorate this problem by effectively moving oppositions away from the EPO?"

– "Are you aware that the potential for opt-out of the system is due to end after a transitional period (7 years, possibly extendable to 14)? Afterwards, businesses seeking a European patent will have to use either a) the UPC system or b) the national patent offices? How would your business approach this choice?"

B - Interviews 5-26

FINAL INTERVIEW QUESTIONS AND RESPONSE STATISTICS[62]

Question 1: General Overview of Advantages/Disadvantages of the new system

(a) What, in your opinion, do you perceive as the advantages of (i) the new Unified Patent Court and (ii) the proposed Unitary Patent?

(E.g. are there advantages to the existence of a one-stop shop? Is there a need for wider protection in 25 MS rather than 3-4 MS?)

(b) Will your job as a solicitor/patent attorney change as a result of the UP/UPC? (optional question only for those in the legal community)

Question 1 was designed as a general 'kick off' question, to begin the interview on a relaxed note.[63] This also enabled the interviewee to flag up issues that could be explored further in the more detailed questions which followed. In other words, this first question captured whatever immediately sprang to mind for the interviewees.[64] The crucial issues raised here were discussed in greater detail with respect to Questions 2 (Opt-in/Opt-out), 3 (UP Renewal Fees) and 4 (UPC fees).

In this respect, it is notable that while all 26 interviewees had some initial thoughts on the UPC, the same is not true of the UP; 6 interviewees were only interested in talking about the UPC here, and any thoughts they had on the UP they left for later on in the conversation. This likely indicates that the UPC is more pressing in the minds of interviewees. Of the 11 interviewees drawn from the legal community - 2 UK PAs, 2 DE PAs, 6 UK solicitors and 1 DE lawyer - 9 gave a comment in response to the optional question on the possible effects of the new system on the legal profession.

Advantages of the UPC

With respect to the advantages of the UPC viz. the current system, the most frequently made point was that there is a benefit to having a 'one-stop shop' for enforcement in Europe; 12 out of 26 interviewees cited this as an advantage.[65] However, 9 interviewees out of 26 stated that they saw no clear advantages of the new system.

62 The responses discussed here refer to the pilot questions as well as the final ones. Where it is necessary to distinguish between the two, this is done.

63 Question 1 closely corresponds to Questions 1-3 in list of the pilot questions, as shown in the annex.

64 All solicitors and patent attorneys are UK-based unless otherwise stated.

65 This was mentioned in the text of the question a prompt as one 'possible' advantage, but this seems unlikely to have influenced responses - interviewees were free to state that it was not an advantage, and 14 out of 26 chose to did so.

Disadvantages of the UPC

With respect to disadvantages, the most commonly cited issue was that of the fees/costs of the new system - 10 out of 26 stated that they thought the UPC would prove to be more costly than the current fragmented system of national litigation. In addition, a further 2 out of 26 interviewees expressed the view that there would be no advantages at all to the UPC if the costs ended up being higher than the costs of the current system.

Advantages of the UP

Of the 20 interviewees out of 26 who gave a view on the UP in response to the first question, the most commonly cited advantage was that of wider protection, which was cited by 9 interviewees as being advantageous (though 2 of these 9 interviewees noted that this was a benefit only for the Pharma sector).

Disadvantages of the UP

The most commonly cited disadvantage of the UP is that the (expected) high level of the UP renewal fees is likely to make obtaining and maintaining a UP more expensive than patenting in only 2-3 MS; 7 interviewees out of 20 cited this as a major disadvantage.

Question 2: Opt-in/opt-out

(a) Do you think your company/your clients will use the Unified Patent Court or are you/they planning to opt out?

(b) What are the key issues your company/your clients are discussing in this regard e.g. concern over bifurcation, injunctions, judicial composition etc.

(c) If your company/your clients are going to use it, how much do you think they will use it, and what patents will they opt-in to the system?

(d) Once the transitional opt-out period ends, do you think your company/your clients will use the UPC system, or will they consider returning to the national patent systems in e.g. the UK and Germany?

Question 2 was designed as a detailed question, focusing on whether patentees are likely to opt-in their EPs to the UPC, or whether they will instead opt-out out of it and continue to use the current system.[66] All interviewees gave a response to this question.

Unsurprisingly, all interviewees, whether from the business and the legal communities, cited the prospective costs/fees of the UPC as an important factor for determining whether to opt-in or opt-out of the system.[67] Almost all interviewees stated that the issue of judicial composition is a crucially important one; 15 out of 15 in-house counsel cited it as a significant factor, while 9 out of 11 interviewees from the legal community did the same.

66 This question corresponds to Questions 4-8 in the pilot questionnaire.

67 For the UP, the level of the renewal fees was said to be a crucial issue (discussed in detail below with respect to question 3).

Meanwhile, a total of 15 out of 26 interviewees stated that bifurcation is a concern: 13 in-house counsel (6 ICT, 3 ENG, 2 Pharma, 1 ICT SME and 1 Pharma SME) but only 2 lawyers. In addition, 13 out of 26 interviewees stated that they are concerned about the UPC's power to grant pan-25 MS injunctions - 9 in-house counsel (3 ENG, 4 ICT, 1 Pharma and 1 ICT SME) and 4 lawyers. A total of 7 out of 26 interviewees stated that they are definitely concerned about patent troll litigation at the UPC - 7 in-house counsel (5 ICT, 1 ENG and 1 Pharma) and 1 lawyer. A total of 10 interviewees out of 26 stated that they consider the revocation risk at the UPC to be of significant concern - 6 in-house counsel (1 ICT, 1 Chemicals, 2 Pharma, 1 ICT SME and 1 Pharma SME) and 4 lawyers. Finally, 3 out of 26 interviewees - 1 in-house ENG counsel, 1 in-house ICT counsel and 1 in-house Pharma counsel - stated that the possibility that forum-shopping will occur in the UPC system is a major concern.

Regarding the possibility that patentees may choose to return to the national patent systems following the transitional period if the UPC system develops in a 'problematic' way, 23 interviewees answered a sub-question on the issue.[68] A total of 12 participants out of 23 stated that even if businesses do not like the way the jurisprudence develops at the UPC, a large-scale return to the national patenting systems is not a real possibility. Of the 12, 8 were in-house counsel (1 ENG, 2 ICT, 3 Pharma, 1 Chemicals and 1 Pharma SME) and 4 were lawyers. Conversely, 10 interviewees out of 23 stated that a large-scale return to national patenting in Europe is a real possibility. The 10 consist of 3 in-house counsel (1 ENG and 2 ICT) and 7 lawyers. The 1 remaining interviewee - the in-house counsel at an ENG company - stated that the company had already returned to the national patenting systems of the UK and Germany due to the opposition backlog at the EPO system.

Question 3 - Patent fees

(a) If the patent renewal fee were set at the equivalent of a bundle patent renewed in 3 participating countries (UK + DE + FR) do you think this would affect your clients' uptake of the Unitary Patent?

(b) Would there be a disincentive to use the system if the fee were set at a higher level than this e.g. 8 MS fees?

(c) What would be your ideal fee e.g. 1-2 MS fees, 3 MS fees, 4-5 MS fees etc.?

(d) Would you agree that annually increasing fees create a disincentive to renewing patents that are no longer creating revenues i.e. 'pruning of the patent portfolio'?

The key aim of Question 3 was to discover what level of renewal fees would provide an incentive for businesses to utilize UPs. During the survey period all interviewees gave a response to this question - 25 interviewees out of 26 referred to specific fee levels, while 1 further interviewee simply commented generally.[69]

68 This question was added after the first 2 pilot interviews at the suggestion of a pilot interviewee so the first 2 interviewees did not give a response. In addition, this question did not form part of the 1 truncated interview conducted via email.

69 Question 3 corresponds with questions 9-15 in the pilot. The general comment came as a result of the one truncated interview, conducted via email.

Out of the 25 interviewees who gave a specified fee level figure, a total of 17 stated that the renewal fees for the UP would provide an incentive if set at the 2-3 MS combined fee level,[70] but not if they were set at a level above a 3 MS combined fee. These 17 participants can be broken down as follows: 10 were working as in-house counsel and 7 were in the legal community. Of the 10 in-house interviewees, 2 were in the Eng sector, 4 were in ICT, 2 were in Pharma, and 2 worked at SMEs (1 ICT SME and 1 Pharma SME).

Furthermore, an additional 2 out of 25 interviewees - 1 in-house Pharma counsel and 1 UK solicitor - stated that in order to provide an incentive the level of the UP fees must be set at the 1-2 MS level. Thus, a combined total of 19 out of 25 interviewees stated that the renewal fees must be set at the 3 MS level or below - the overwhelming majority. By contrast, only 6 out of 25 interviewees stated that a fee of more than 3 MS would still provide them with an incentive to use the UP. Of these remaining 6 participants, 3 were in the legal community, and 3 were working in-house (1 in Eng, 1 in ICT and 1 in Chemicals). The 1 interviewee out of 26 who did not give a specific level simply stated that he hoped the fees would be 'as low as possible'.

A total of 14 out of 24 interviewees[71] who responded to a sub-question on 'patent pruning' acknowledged that selective pruning is an important factor in their discussions concerning use of the UP. The 14 included 8 in-house counsel (3 ENG, 3 ICT, 2 Pharma) and 6 lawyers.

Question 4 - Court fees

(a) How important are court fee levels to your firm and your clients? For instance, if the initial court fee for filing an infringement claim were set at the equivalent to filing a case in 4 or 5 of the Signatory States would this encourage your clients to use the system? Would you consider this correct, too low or too high?

(b) The UPC fees will be made up of both fixed fees and after a certain threshold a value based fee. What do you see as the pros and cons of this sort of system?

The purpose of Question 4 was to discover from the stakeholder perspective what level the court fees should ideally be set at, and to discover what the views of the value-based system are.[72] All interviewees responded to this question. The highest proportion - 8 out of 26 interviewees - stated they would like to see the UPC fees set at a level less than the current fees of the German system. The 8 consist of 6 lawyers and 2 in-house counsel - 1 ICT and 1 Pharma. A further 3 out of 26 - 2 lawyers and 1 in-house Pharma counsel - said that they hoped the UPC fees would be set at a 1-2 MS level. Meanwhile, 2 more interviewees - 1 ENG and 1 ICT in-house counsel - stated that fees at the 3-4 MS level would be acceptable. The remaining 13 interviewees - half the sample - either did not give a specific fee, and only gave general comments, or did not consider the UPC fees issue to be of importance.

70 The example given in Question 3 above is the combined UK + FR + DE renewal fees (the major patent jurisdictions). The interviewee in the truncated interview was unable to provide a response to this question.

71 This sub-question on pruning was not included in the first 2 pilot interviewees; in fact, it was suggested by 1 of those first 2 interviewees. The sub-question on pruning was added to the 2 final pilot interviews as well as to the final questions of the study. Thus only 24 out of 26 gave a response to this sub-question.

72 Question 4 corresponds to Questions 15-19 in the pilot list of questions.

Meanwhile, a total of 8 interviewees - 2 lawyers as well as 6 in-house counsel (2 ENG, 2 ICT, 1 Pharma, and 1 SME Pharma) - stated that they have a negative view of the value-based element of the mixed UPC fees system. Meanwhile, 7 interviewees said that they have a positive view of the proposed value-based system - 5 lawyers and 2 in-house counsel (1 Pharma and 1 Chemicals). The remaining 11 interviewees had nothing specific to say about the value-based system.

Question 5 - Business sector issues

(a) Is there a particular sector of business e.g. Pharma, ICT, ENG etc. that you think will benefit more than other sectors from the UP/UPC? Why do you think this?

(b) In particular, do you see any benefits or costs for the pharmaceutical sector in having

(i) a Unitary patent with 25 MS-wide protection

(ii) a specialised divisional court for pharmaceuticals/chemicals located in London?

The aim of Question 5 was to establish whether any particular sector would benefit more than others from the new system - and in particular, with respect to the Pharma sector, to discover what the benefit to the sector would be from the UP or the London-based UPC Central Division.[73] 25 out of 26 interviewees were able to provide a response to this question.[74]

A total of 21 out of these 25 interviewees stated that they expect the Pharma sector to benefit the most from the new UP/UPC system - 12 in-house counsel (5 ICT, 2 Pharma, 3 ENG, 1 Chemicals and 1 Pharma SME) and 9 lawyers.

18 interviewees out of 25 - 9 in-house counsel and 9 lawyers - stated that the location of the Pharma/Chemicals division in London is a good thing, both for the Pharma/Chemicals sector and for London's legal community.

Question 6 - EPO opposition/UPC revocation interplay

Does the current issue of the opposition delays/backlog at the EPO concern you or your clients? Could the fact that the UPC does not have to stay proceedings pending EPO opposition help to ameliorate this problem by effectively moving oppositions away from the EPO?

Question 6 sought to discover (i) the significance of the current EPO oppositions backlog and (ii) the potential for UPC revocation actions to help alleviate this backlog. 24 out of 26 interviewees answered this question.[75]

73 Question 5 corresponds to questions 20-22 in the pilot survey.

74 This question was not posed during the truncated interview with the representative of the ICT SME.

75 2 participants did not answer this question. The reason for this is that for this question was not in the initial first pilot interview - it was suggested afterwards by the second pilot interviewee, who gave an answer to it. Furthermore, this question was not asked during the truncated interview.

A total of 19 out of 24 interviewees stated that the current EPO backlog is a significant problem in their opinion. Of the 19, 8 were in-house counsel (3 ENG, 2 ICT, 2 Pharma and 1 Chem) and 11 were lawyers. Meanwhile, 5 out of 24 interviewees stated that the current backlog is not a significant problem - all 5 were in-house counsel (3 ICT, 1 Pharma, 1 Pharma SME). 13 of the 19 who stated that it is a problem stated that the availability of UPC revocations is likely to alleviate the backlog. Of the 13, 5 were in-house counsel (2 ENG, 1 ICT and 2 Pharma) and 8 were lawyers. 6 out of 19 argued that the existence of UPC revocations is unlikely to alleviate the backlog - 3 in-house counsel (1 ENG, 1 ICT and 1 Chemicals) and 3 lawyers.

Question 7 - Sources of info

What are your major sources of info about the UP/UPC?

This question was suggested by the IPO about one third of the way through the interview process. As a result, the first 8 interviews did not feature this question. 18 out of 26 interviewees therefore answered this question. Most interviewees acknowledged that they take advantage of a mixture of formal and informal sources in their preparations. The formal sources are the primary UPC and IPO documents mentioned above. Informal sources, on the other hand, include conversations with peers, as well blogs such as those found on the IP Kat,[76] and discussions at representative organisations. Several of the interviewees had either made representations to the UPC preparatory committee or were themselves on the committee. The interviewees were, in general, very well informed.

Question 8 - Any other issues

Is there anything else you think is of significance to the current UP/UPC debate?

All interviewees provided a response to this question.[77] However, most interviewees did not have anything else to add to their responses - they felt the survey had dealt with all the important issues. A number of 'other issues' were suggested by interviewees. These were as follows:

– An in-house counsel at an ICT company raised the issue of 'Amicus Curiae briefs', noting that her company would like to see 'Amicus briefs' accepted within the UPC system.

– An in-house counsel at a large Engineering firm stated that she would like to see the UK refuse to ratify the various agreements until the final details have been hammered out so that business can make plans to deal with the new system.

– An in-house counsel at a large diversified firm (with a large interest in Pharma) stated that there had been a lot of 'misinformation' about the court - particularly over supposed cost-savings - and that it would have been better to spend the energy and resources devoted to the UP/UPC on reforming the EPO to alleviate the oppositions backlog.

The in-house counsel at a large ICT firm stated that there had be a 'lack of economic impact analysis at individual MS level'. He further noted that 'Poland is the only country that did any kind of IA and as a consequence decided to remain outside the UPC/UPP'.

76 http://ipkitten.blogspot.co.uk/

77 This question corresponds to the final question of the original pilot interview questions.

LIST OF ABBREVIATIONS

CFI - Court of First Instance

DE - Germany

ENG - Engineering sector

EP - European Patent

EPC - European Patent Convention

EPO - European Patent Office

EU - European Union

FR - France

ICT - Information and Communication Technology sector

IPEC - Intellectual Property Enterprise Court

MS - Member State

MVPs - Most valuable patents

NL - The Netherlands

NPE - Non-practising Entity

PA - Patent Attorney

PAE - Patent-Assertion Entity

Pharma - Pharmaceutical sector

PCC - Patents County Court

PHC - Patents Court, part of the Chancery Division of the courts of England and Wales

SWE - Sweden

UK - United Kingdom of Great Britain and Northern Ireland

UP - European Patent with Unitary Effect

UPC - Unified Patent Court

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