

The Opt-Out: Actions You Need to Take

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It is expected that the Unified Patent Court will open for business in early 2018, or shortly thereafter. Proprietors of European “bundle” patents, applicants for such patents, SPC holders and licensees, as well as parties to research/collaboration/joint venture agreements involving such rights, will need to consider NOW how they will engage with the new court and, in particular, whether and to what extent they will opt out their European patents and applications and SPCs.

An opt-out applies to all designations of a European “bundle” patent and any related SPCs and, if there is more than one owner, the owners will need to agree on the appropriate course. Licensees and other interested parties have no right to opt out and will need to determine or negotiate what influence they have over the opt-out decision.

Proceedings in the UPC prevent an opt-out of the relevant European patent, and proceedings in one national court involving a single designation of the European patent will prevent the withdrawal of an opt-out.

The perceived advantage of an opt-out is that the patent is “protected” from proceedings in the UPC (Central Division) for revocation or for a declaration of non-infringement. However, the patentee can be prevented from withdrawing the opt-out so that it can enforce the patent supra-nationally in the UPC if it brings proceedings in any national court, or if an infringer brings revocation or declaratory proceedings in a national court involving even one designation of the European patent.

The effect of a national proceeding upon a non-opted-out European patent has been the subject of debate following amendment of the Brussels Regulation on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (1215/2012, as amended by Regulation 542/2014). The Brussels Regulation treats the UPC as a national court to which Article 29 of the Regulation (*lis pendens*) applies. This means that the national action will block further proceedings in the UPC and any other national court, but only in respect of the same cause of action between the same parties, and possibly in respect of related actions. This provides a number of jurisdictional opportunities, some of which are referred to in L below.

A. Timing

Pursuant to Article 83(3) of the Agreement (“UPCA”) on a Unified Patent Court (“UPC”) and Rule 5 of the draft Rules of Procedure for the UPC (“RofP”) a proprietor of a European patent (or an applicant for a European patent) can opt out of the jurisdiction of the UPC. The proprietor or applicant for the European patent will make an application on-line to the Registry of the UPC. No fee is payable to opt-out. With effect from the registration of the application to opt out, the European patent/application will not be subject to the jurisdiction of the UPC. For example, it cannot be the subject of a central attack on validity or a declaration of non-infringement. The patent will remain subject to the jurisdiction of the national courts of the countries where it has been validated.

The opt-out will automatically extend to any SPC granted in respect of the patent. The principle

recommended by the Drafting Committee for the RofP is that the status of ALL SPCs granted in respect of a patent should always follow the status of the patent (i.e. in or opted out).

The right to opt out can be exercised at any time during the transitional period of 7 years from the date of entry into force of the Agreement (“commencement”) until one month before the expiry of the transitional period. It is proposed that there will be a so-called “sunrise procedure” which will allow applications for an opt-out to be recorded by the UPC Registry in the four months before the commencement of the UPC.

Article 83(3) provides that the right to opt out is lost if an action is brought before the UPC before the opt-out has been registered. Accordingly, patentees who believe that as soon as the UPC opens their patents will be the subject of revocation proceedings or applications for declarations of non-infringement ought to take advantage of the sunrise procedure to make sure that the opt-out is registered in time.

Article 83(4) provides that the opt-out can be withdrawn by a further application to the Registry. No fee is payable to withdraw an opt-out. Unless withdrawn, the opt-out will last for the life of the patent/SPC in question.

However, Article 83(4) goes on to provide that an opt-out cannot be withdrawn if any designation of the European patent has been the subject of any national proceedings over which the UPC also has jurisdiction.

Where a decision is taken not to opt out a European patent, the effect of Article 29 of the Brussels Regulation appears to be that proceedings in a national court or the UPC will only block further proceedings in, respectively, the UPC or another national court in respect of the same cause of action between the same parties, or possibly related actions. It is currently estimated that commencement will be in early 2018. The sunrise period will be triggered when the UPC is formally ratified by the last of the UK or Germany depositing their notification of ratification and the UPC will automatically come into existence on the first day of the fourth month thereafter. During the sun rise period, patent and SPC owners can opt

patents, patent applications and related SPCs out of the jurisdiction of the UPC prior to the court coming into existence. Consequently preparations should commence promptly.

B. The decision to opt out

Each proprietor/applicant will need to establish its own criteria for deciding whether or not to opt out. At the strategic level, companies need to decide whether to engage with the new court from the outset, or to wait and see how it develops and how reliable its decisions and procedures are. It is certainly true that there are likely to be many procedural disputes, arising from the poor drafting of the UPCA and the open discretion allowed in many circumstances by the RofP, and companies may prefer to avoid the uncertainties, cost and probable delay to which such disputes will give rise. However, industries which wait on the sidelines will find that the ground rules governing the exercise of the discretion in many areas of the procedure will be decided against the background of the business models of other different industries.

In deciding whether to opt out particular European bundle patents, factors which patentees will need to consider include the following:

- the importance of the invention, and the business impact if the patent is revoked (even if the decision is overturned on appeal);
- the vulnerability of the patent/application to central revocation;
- the desirability of cross-border enforcement in one court;
- comparison between prospects for preliminary injunctions in national courts and in the UPC;
- the perceived cost/reliability of UPC proceedings compared to national proceedings; and
- the availability of other protection (e.g. trade secrets, data exclusivity (in the pharma/biotech industry)).

A decision to withdraw an opt-out will depend upon a re-assessment of these criteria.

A patentee who opts out to avoid central revocation or declaratory proceedings, but which intends to withdraw the opt-out when it wishes to enforce that patent supra-nationally in the UPC, can find itself stymied if a third party in the meantime has sought revocation or a declaration of non-infringement in a national court.

C. Who can opt out?

Rule 5 of the RofP requires the application to opt out (or withdraw) to be made by the proprietor of the granted European patent or the applicant for the patent. If there is more than one proprietor/applicant (for example, if ownership is divided between different designations of the

European patent, or if it is jointly owned) ALL must make the application. If one or more SPCs have been granted at the date of the application then ALL holders of SPCs and ALL proprietors/applicants must make the application to opt out (or withdraw).

The above rules apply even if the proprietor has granted exclusive licences to third parties and even if the patent in question has expired leaving SPCs in the hands of one or more holders. In the latter situation an application by the proprietor of the patent and the holders of ALL SPCs must be made in respect of the expired patent to have effect on the SPCs.

The RofP currently stipulate that the “proprietor/applicant” entitled to opt out is the entity entitled to be registered as proprietor or applicant. This entity may well not be the same as the entity in fact registered as the proprietor in one or more national registers or as the applicant at the EPO as a result of unrecorded transactions or corporate reorganisations. If such is the case the draft RofP currently require each entity entitled to be registered to lodge, as part of the application to opt out, particulars as to why and where it is so entitled in a Declaration of Proprietorship.

This requirement underlines the need for preparations to opt out to be made at an early stage.

D. What is required to opt out/withdraw an opt-out?

Rule 5.3 and 5.8, RofP, requires an application to contain the following:

- the names of all proprietors/applicants/SPC holders at the date of application;
- all relevant postal and electronic addresses of the above and, if a representative has been
- appointed for the application, the name, postal and electronic address of the representative; and
- details of the patents/applications/SPCs in question.

The Registry of the UPC will NOT check the correctness of the information required by Rule 5.3 and 5.8 RofP.

E. What if a mistake is made in the application?

If any of the particulars required by Rule 5 above is incorrect or deficient the opt-out (or withdrawal) will be INEFFECTIVE until the error is corrected pursuant to Rule 5.6 RofP.

This means that, pending correction, the patent/application/SPC in question remains subject to the jurisdiction of the UPC in the case of a defective application to opt out. In the case of a defective application to withdraw, pending correction, the patent/application/SPC will not be enforceable in the UPC.

The Register is open to the public and therefore any defect in an application to opt out (or withdraw) will be available to third parties.

F. Actions to be taken by the patent proprietor/applicant

If the relevant patent/application is in the name of more than one proprietor/applicant the application must be made by ALL proprietors/applicants even if within the same group of companies.

Check that the correct proprietors are registered. Where the entity entitled to be registered as proprietor is not in fact registered in one or more relevant countries then an appropriate Declaration of Proprietorship will need to be prepared and lodged.

Where licences have been granted to third parties the relevant agreements need to be examined to determine whether consents are required by the proprietor for an opt-out application to be made.

Where one or more designations of the patent have been assigned, an assignor wishing to opt out (or withdraw) must do so jointly with ALL assignees if it retains ownership of at least one designation. Where there is divided ownership, it may be convenient for the owners to put in place in advance a collective power of attorney to the patent attorneys who will file the opt-out, authorising them to act on the instructions of one “lead proprietor” on behalf of all proprietors.

G. Actions to be taken by an exclusive licensee

An exclusive licensee is entitled to commence proceedings before the UPC unless the licence agreement excludes this right. If there is no such exclusion the licensee must simply give to the proprietor/licensor prior notice of his intention (UPCA Article 47).

The exclusive licensee with the right to litigate may wish the patent to be opted out (or the opt-out withdrawn) based on the same criteria as set out above in section B above.

The licensee will need to establish whether the licence agreement allows the licensee to require the proprietor to make the relevant application as a licensee has no such right. This may be a complex issue if the licence is granted under one or some only of the designations of the patent. To be effective ALL designations have to be the subject of the application by the proprietors.

Parties contemplating taking or granting future licences should ensure that appropriate provisions are agreed as to how opt-out decisions are to be taken.

H. Actions to be taken by a non-exclusive licensee

A non-exclusive licensee will be entitled to commence proceedings before the UPC to the extent that this is expressly permitted by the licence and provided, again, that notice is given to the licensor (Article 47(3) UPCA).

As is the case for an exclusive licensee, a non-exclusive licensee (given the contractual right to commence proceedings) may wish the licensed patent to be opted out (or an opt-out withdrawn) and needs to take the same action as in G above.

I. Actions to be taken by parties to a collaboration agreement

The provisions of a collaboration/joint development agreement involving patents will contain provisions setting out inter alia the control of patent prosecutions and enforcement. It is very unlikely that these provisions will have dealt with the decision to opt out (or withdraw) the relevant patents and the procedures for doing so. Parties to such agreements will need to agree such matters bearing in mind the following:

- it is only the “proprietors/applicants for a relevant patent” who can make the application; and
- all “proprietors/applicants” must join in the application.

Parties entering into future collaboration/joint development agreements should insert appropriate provisions to cover the above.

J. Action to be taken by the holders of an SPC

The fundamental principle recommended by the Drafting Committee of the RofP is that the status of ALL SPCs in respect of an underlying patent will depend upon the status of that patent.

Since an SPC holder may be different from the proprietor of the underlying patent and since there may be a number of such independent holders all of whom will have an interest in a decision to opt out (or

withdraw) it will be essential for existing holder(s) of SPCs to reach an agreement on opt-out (withdrawal) with the proprietor of the underlying patent and among themselves. ALL holder(s) will also have to join in the application.

Parties contemplating becoming the holder of an SPC should negotiate appropriate provisions with the proprietor of the underlying patent which provisions also need to be binding on all other existing or future holders of an SPC in respect of that patent.

A collective power of attorney, as suggested in F above, should include the SPC holders.

K. Consequences of a failure to act in a timely fashion

Those proprietors/applicants who elect for the European patent with unitary effect will not need to take a decision on opting-out as the unitary patent will be subject to the exclusive jurisdiction of the UPC.

Applicants/patentees of traditional European patents who fail to take or delay a decision on opting-out run jurisdictional risks. A non-opted-out patent, during the transitional period of seven years, may be the subject of UPC proceedings or national proceedings under the ordinary Brussels Regulation *lis pendens* rules. Therefore if a proprietor would prefer not to have UPC proceedings (for example, an attack on validity in the Central Division of the UPC) he can only ensure this by opting out.

Conversely if a proprietor/applicant has exercised an opt-out but later wishes to take advantage of the wide UPC jurisdiction by withdrawing the opt-out, this right will be lost if there are any intervening proceedings commenced before a national court in respect of any designation.

L. Opportunities existing for non-opted-out European Patents: “Blocking”

A decision not to opt out a European patent creates some interesting jurisdictional opportunities for parties during the transitional period. Article 83(1) of the Agreement provides that actions for “infringement or for revocation of a European patent or an action for infringement or for declaration of invalidity of a supplementary protection certificate listed for a product protected by a European patent” may still be brought before national courts. The better view seems to be that the quoted words are shorthand for all causes of action in relation to a patent. Thus there will exist parallel jurisdictions; the national route and the UPC route.

The relationship between these parallel jurisdictions will be governed by the Brussels Regulation. As noted earlier, the Regulation treats the UPC as a court of a Member State for the purposes of the Regulation (Article 71a(1)) and provides that the *lis pendens* provisions (Articles 29 to 32) will apply to the UPC during the transitional period.

This means that an action for infringement of a non-opted-out patent in one national court, which seeks pan-European relief, will block actions in all other national courts and the UPC and similarly an action in the UPC will block an action in all national courts. However the blocking effect of Article 29 is in terms limited to “the same cause of action and between the same parties” (related actions will not necessarily be stayed by the second court). The following non-exhaustive possibilities arise:

- An action for infringement in one national court may be followed by a central revocation action in the UPC by the defendant – different causes of action;
- An action in the UPC for a declaration of non-infringement could be followed by interlocutory proceedings for infringement in a national court (Article 35 of the Regulation);
- An action for a declaration of non-infringement in a national court could be followed by an

infringement action by a licensee in the UPC –
different parties.

For more information, please see our **UPC toolkit** on the elexica microsite:

<http://www.elexica.com/en/Resources/Microsite/UPC-toolkit>

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