

The Economics of Unitary Patents

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Obtaining a European Patent with Unitary Effect (UP) will become an option for patentees prosecuting patent applications before the European Patent Office (EPO) at the same time as the Unified Patent Court (UPC) opens its doors for business, most likely in early 2018. A UP will provide protection for a patentee in (on current information, though subject to change) 25 countries – all the EU Member States except Croatia, Poland, and Spain.

At the moment, when a patent is granted by the EPO, a patentee has the choice to validate and obtain a “bundle” of patent rights in any of the 38 countries covered by the European Patent Convention. This will not change. Rather the UP will provide another option: to have protection in 25 of those countries through the single UP right. As for the other 13 European Patent Convention countries not covered by the UP, the patentee will be able to validate bundle patents in the usual way. A patentee will also retain the option (if desired) of obtaining bundle patents in the countries participating in the UP scheme in preference to a UP.

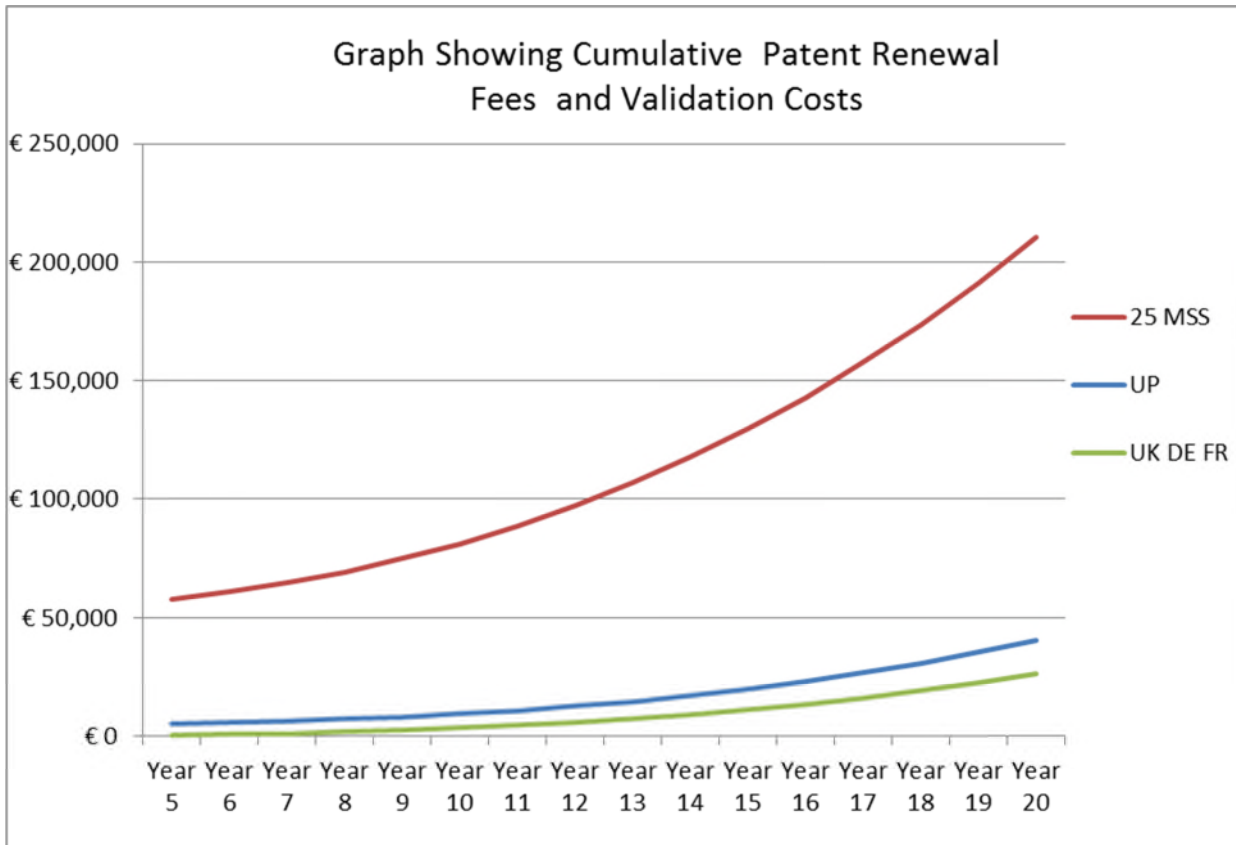
Infringement and revocation proceedings involving patents granted by the EPO are currently determined in the respective national courts. With the introduction of UP, there needed to be a court to hear UP proceedings: the UPC will serve this function as well as providing an alternative forum for enforcement of national bundle patents granted by the EPO. As its name would suggest, the UP has unitary character. Thus, a judgment of a division of the UPC enforcing a UP will have unitary effect across all the 25 participating member states, or in the case of bundle patents granted by the EPO and litigated in the UPC, the participating member states where the granted bundle patents have been maintained in force.

Should you choose the UP?

The answer will depend heavily on what breadth of coverage is wanted. Patentees wanting broad protection may be tempted by the lower costs of the UP, but deterred by its unitary character. Patentees wanting coverage in only a small number of territories may not be tempted by the UP as it will remain a more expensive option. The most difficult questions will likely arise for patentees who currently opt for bundle patents in 4 or 5 territories. Whilst it is possible to identify the important factors for these patentees to consider, the decision will turn on particular business interests, rather than “one size fits all” principles.

Patentees Wanting Broad Protection

Different EU member states have different translation and validation requirements for bundle patents. Some countries such as Italy and Spain require a full translation of a granted European patent into their national language to be filed if a bundle patent is to have effect in their territory. In contrast, there is no requirement for a patent to be translated at all if it is to be maintained in the UK, Germany, and France. For a UP, a translation into one other EU language will be required – but only one – relieving a patentee seeking protection in all of the 25 countries covered by the UP of translation costs of the order of €50,000 - €60,000.



The above graph shows the cumulative renewal fees and translation costs for the various different options for validating a patent/bundle patents assumed to be granted after 5 years prosecution before the EPO. As can be seen, the translation costs (the starting values at Year 5) alone needed to validate a bundle patent in 25 member states under the current system (let alone the renewal costs) are substantially more than the cost of either maintaining a UP or maintaining a patent in the UK, Germany, and France over the full 20 years.

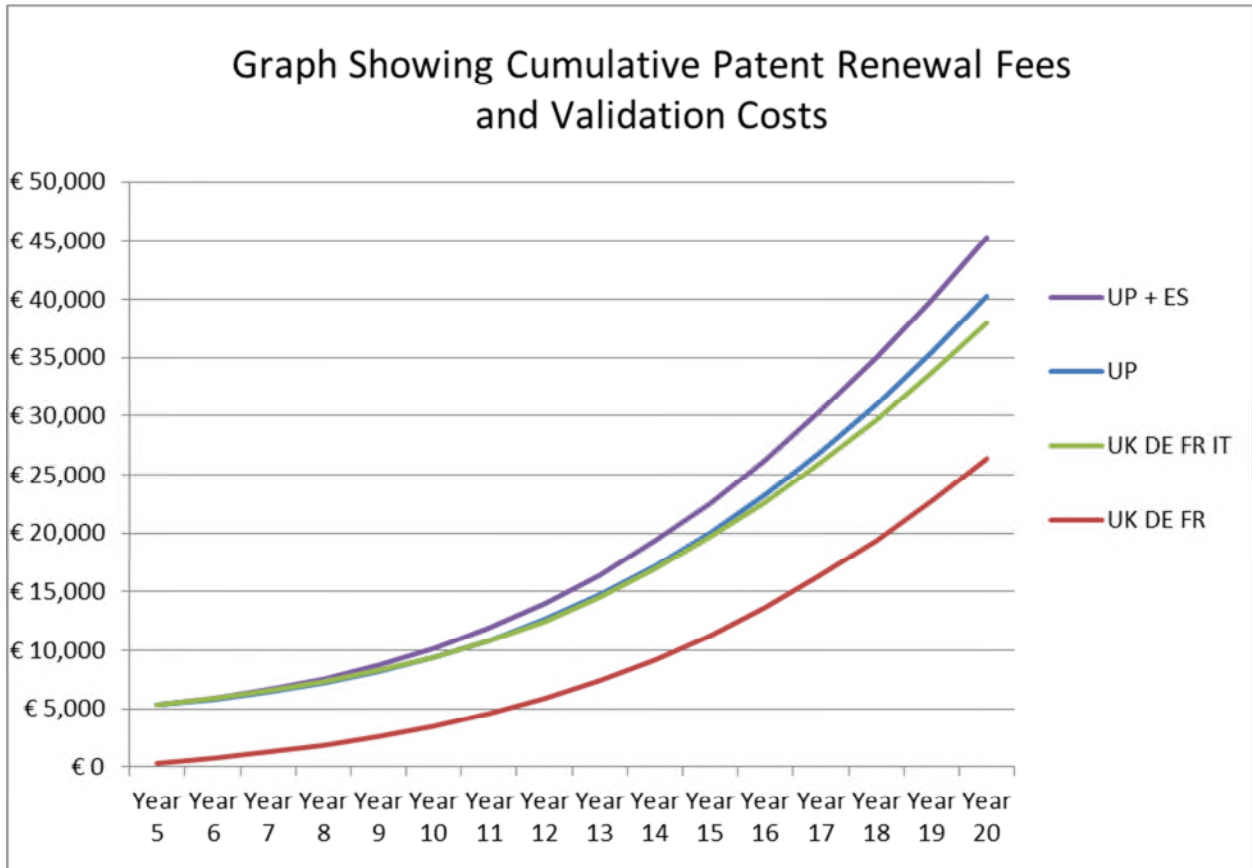
The upfront savings of opting for a UP for a patentee wanting broad jurisdictional coverage are substantial. Yet this cost saving may in fact only be a consideration for a minority of patentees. Almost 50% of patentees are currently content with coverage in the UK, Germany, and France, and almost 90% of patentees have coverage in only five or fewer territories.

Furthermore, the minority of patentees who do currently opt for broad territorial coverage are generally those for whom the patents are of greatest commercial value – notably, in the life sciences sector. Many such patentees are nervous about the unitary nature of the UP and of the unfamiliar UPC, and may prefer the bundle patent route, which, despite its expense, allows the possibility of “opting out” of the UPC’s jurisdiction, and avoids risking the revocation of the UP by a single decision of the UPC.

Patentees currently limiting their patent protection

As mentioned above, almost half of patentees currently end up validating and maintaining bundle patents in only the three largest European countries by GDP: UK, Germany, and France. Of the 40% of patentees that want bundle patent protection in 4 or 5 jurisdictions, the majority maintain protection in the UK, Germany, and France, adding one or both of Spain and Italy.

The following graph shows the cumulative costs of validating and maintaining a patent granted by the EPO 5 years after filing: for bundle patents in the UK, Germany, and France; for bundle patents in the UK, Germany, France, and Italy; for the UP; and for the UP plus Spain (assuming that the patent is prosecuted in English).



As can be seen, the option of bundle patents in the UK, Germany, and France remains cheaper than the other three options – largely because of the complete lack of translation costs in order to obtain protection in those countries. Translation costs are always paid upfront, which is a significant deterrent for some patentees, especially SMEs.

As the UP renewal fees were set by reference to the cost of renewing bundle patents in the four most popular jurisdictions, it is not surprising that the cost of obtaining UP protection is similar to the cost of obtaining bundle patent protection in the UK, Germany, and France together with a further country such as Italy or Spain (both of which require a translation into a national language to be filed). For a similar price, however, the UP provides substantially broader coverage.

Furthermore, owing to the drafting of the legislation, the single translation required for a UP originally prosecuted in English can be into any EU language including Spanish. This translation can also serve as the Spanish translation required for a bundle patent to be validated in Spain if the patentee wants bundle patent protection there. This potentially makes combining Spanish protection with a UP a particularly attractive option. The UP on its own gives

coverage in territories constituting approximately 87% of the EU's GDP; adding Spain gives coverage at the level of close to 95% of the EU's GDP. Although the annual Spanish renewal fees do eventually mount up to around an additional €5,000, for the first few years the cost of obtaining this broader protection in Spain are negligible and, if desired, protection in Spain could be dropped in later years before some of the more significant annual renewal fees are incurred.

Will the economics of the UP encourage patentees who currently maintain coverage in the UK, Germany, and France (and, as the case may be, Italy and/or Spain) to opt for the UP?

For those solely validating in the UK, Germany and France, this is far from certain. Obtaining protection via a UP will involve incurring one upfront cost for a translation and will incur higher on-going renewal fees. It is likely that only if the additional protection in other territories is perceived to be worthwhile would a patentee choose to incur these extra costs. For a patent granted after five years of prosecution before the EPO, the money saved by not incurring any translation costs can then be used to maintain bundle patent protection in the UK, Germany, and France for the next 5 to 6 years.

However, for patentees wanting coverage broader than the UK, Germany and France, the answer is, "quite possibly". On the one hand, the UP will not be much more expensive than obtaining protection in any four-country combination of EU member states, and is likely to be cheaper than a five-country combination. For similar or less money, much broader protection is achieved. This would suggest the UP could be a popular choice.

For the small number of patentees maintaining coverage in 7, 8, or more territories, the costs savings will be much more substantial: the UP is likely to be an attractive option, especially as the number of territories a patentee is interested in increases.

However, patentees may have other concerns. The unitary character of a UP means it is subject to central revocation in the UPC, and it is not possible to opt out a UP as is the case for bundle patents. The possibility that a UP might be revoked and a proprietor might lose protection throughout Europe by a single decision may persuade proprietors to retain the bundle patent route regardless of higher cost, particularly in the case of high value patents such as some pharmaceutical patents.

Furthermore, renewal fees rise sharply in the later years of a patent's life. As the fees increase, some patentees with broad coverage will maintain the bundle patents only in the countries where the product which it covers is commercially significant, allowing it to lapse elsewhere. This cost saving strategy will not be possible for the UP – it will be all or nothing.

It should be remembered, however, that for some patentees the hazard of central revocation may be outweighed by the benefit of central enforcement, which would make the UP very attractive. In some sectors, for example, in the telecoms and communications sector, often an individual patent is not very valuable until it is practised alongside a large number of other patents in the business' portfolio. The portfolio as a whole is valuable, but each patent is less so. In such cases, central revocation of one patent may not be commercially disastrous.

Conclusion

The decision for or against a UP requires, in the end, a balance to be struck between cost and effective enforcement. The vast majority of patents, even in the life sciences sector, are not litigated: should considerations about how a small minority of patents might be litigated outweigh the very substantial cost savings which the UP offers? On the other hand, if the UPC revokes a commercially significant patent, the loss of the patent monopoly across much of Europe would cost the company a substantial multiple of its patent renewal budget. Then again, how likely is it that different national courts would come to a different conclusion than the UPC? Defending a patent nationally is likely to buy longer protection in those jurisdictions where litigation is slower. For some patents this will be worth the cost.

Most major companies are already weighing these different considerations and the assessment of the relevant factors, and the weight to be given to each of them will vary from company to company (and from product to product).

With all the above in mind, who will be attracted to opt for a UP?

- SMEs, and particularly start-ups with ambitious hopes for their products, will likely be good candidates for choosing the UP route. The ability to maintain broad geographic protection with limited up-front costs will probably be a sound option for a company with hopes to be bought out before the end of the patent's term if the product is successful.
- The admittedly small - but not insubstantial - group of patentees designating seven or eight countries at the moment should be tempted by the economic savings offered by the UP.
- Telecoms and electronics technology companies often rely on large portfolios of patents. There may be strategic advantages going forward for technology companies to designate some (but not perhaps all) of their new patents as UPs in order to secure the advantages of the broader geographic coverage without significant extra cost.

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