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# Are your licenses UPC-proof?

Jean-Baptiste Thiénot from CMS Francis Lefebvre Avocats focuses on the contractual arrangements that can be useful to get the most out of the UPC and Unitary Patents.

**A**waiting the decision of the German Federal Constitutional Court, we are only one step away from the entry into force of the Unified Patent Court (UPC) and the European Patent with Unitary Effect (**Unitary Patent**). In this context, this might be a good time to think about the consequences of this new system on the license agreements in force and good practices for future contracts.

Indeed, even though the purpose of the UPC is not to be the judge of license agreements, licensing specialists cannot ignore the new system which will impact any contract concerning at least one European patent, notwithstanding the law applicable to the contract. This new system will significantly modify patent law in Europe; many of its aspects deserve to be anticipated in licensing agreements.

For this article, we will focus on the contractual arrangements that can be useful to get the most out of the new system (and avoid its pitfalls) on the following topics: obtaining a Unitary Patent (1), registering and withdrawing an opt-out (2) and the licensee's right to bring action (3).

## Obtaining a European patent with unitary effect ("Unitary Patent")

It is not uncommon to grant licenses on European patent applications (prior to the grant of the patents). With the arrival of the new system, it will be necessary to decide whether or not to choose the unitary effect for

this patent. This strategic choice will determine the rest of the life of the patent.

Indeed, EU Regulation No 1257/2012 provides that the unitary effect may be requested for any European patent application issued for all participating Member States. This request enables to obtain a Unitary Patent even though it was not the original intention of the applicant at the time of filing the application. The consequences of the request for unitary effect are important: instead of obtaining a "classic" European patent, which corresponds to a bundle of national patents, the proprietor will obtain a unitary patent which will have the same effect in all the participating EU Member States, as if they were all one single and unique State (*« It shall provide uniform protection and shall have equal effect in all the participating Member States. »*<sup>1</sup>).

Thus, a Unitary Patent has many differences with a "classic" European patent: the main one is that, in the event of an action for revocation of a patent launched by a third party, the validity of the patent will be assessed by the UPC. Thus, a revocation decision will take effect simultaneously in all the territories of the participating Member States. From a contractual point of view, the proprietor cannot "cut" a Unitary Patent in order to assign a part of the territory to someone else (but he still can grant licenses for only a part of the territory).

Consequently, the licensee will be in a very different situation if the patent application that he exploits becomes, after grant, a Unitary Patent or a "classic" European patent (EP).

- For example, when the licensee operates throughout Europe, it may prefer to have a Unitary Patent. Indeed, the licensee will thus have protection in most European countries (in which he would probably not have had protection with an EP) for a limited cost (equivalent to the fees payable to the Office for the four biggest Member States).
- On the other hand, the risk of a global action for revocation against a Unitary Patent before the UPC is a downside for both parties to a license agreement. However, licensors who have an interest in maintaining the validity of the patent in order to continue to receive royalties are generally more sensitive to this risk than licensees.

<sup>1</sup> Art. 3, Regulation No. 1257/2012

## Résumé

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Jean-Baptiste leads the patent law practice of the Paris team. He represents his clients in national and multi-jurisdictional patent litigation. His activity also covers advice (inventorship determination, portfolio audit) and drafting IP-related agreement (R&D contracts, technology transfer, assignment and license agreements,). In particular, Jean-Baptiste regularly advises clients regarding R&D agreements involving interactions with public healthcare/research institutions and subsequent license agreements. He also regularly advises clients in relation to the protection of trade secrets/know-how (litigation, implementation of internal protection policies). Jean-Baptiste has a deep knowledge of the medical devices industry. He is member of AIPPI, LES, APRAM and France Biotech.



According to Article 9 (1) of the Regulation NO. 1257/2012, the request for unitary effect is made “*by proprietors of European patents*”. The Regulation gives no role to the licensee who has to accept the proprietor’s decision in this respect. This situation might certainly trigger tensions between the parties to a license agreement. In addition, this request must be made within a short period of time: at the latest within one month from the decision of grant, which leaves little time for consultation. Afterward, it is impossible to obtain a Unitary Patent.

Against this context, what are the contractual arrangements which may be relevant to effectively use the Unitary Patent system and avoid frictions between the parties to a license agreement?

Firstly, in view of the short time period, the proprietor must, in any case, anticipate in order to be able to submit a valid request within the time limit. In particular, in the case of co-ownership, it is necessary to ensure that a contractual mechanism is put in place to obtain the approval of all co-proprietors in due time.

Secondly, it may be relevant to arrange for a licensee’s participation in the decision to file a request for unitary effect. These provisions could be included in the contract either as part of those concerning the designation of the territorial scope of the patent upon grant, or those relating to the provisions relating to the management of the relations with the patent offices. One could even think of a contractual

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provision that provides that the licensee will have the last word. There is no ideal solution to this question. The best solution will depend in particular on the characteristics of the licensed technology, the operating territory and the division of roles between the parties...

### Opt-out and withdrawal

The UPC will become the sole European Court for all disputes relating to UPs and “classic” European patents.

Before that, the UPC Agreement provides for a transitional period of 7 years (renewable) during which the actions relating to the “classic” European patents « *may still be brought before national courts or other competent national authorities* »<sup>2</sup>. This means that the actions may be brought either before the JUB or before national courts. For the sake of clarity, this applies only to “classic” EP patents and not to Unitary Patents.

Those wishing to avoid the uncertainties associated with this transitional period “*shall have the possibility to opt out of the exclusive jurisdiction of the Court*”<sup>3</sup>. This possibility to opt out concerns all “classic” EP patents (with the exception of those that have already been the subject of an action before the UPC). During the transitional period, an opt-out may be filed at any time during the life of the patent and even before its grant and after its expiry.

The decision to opt out has important consequences for the patent and a large number of companies have already declared their intention to use it to protect their patents from a global revocation attack. Indeed, if an opt-out has been validly filed, the UPC will have to waive jurisdiction; and the plaintiff to the revocation will then have to bring action before the relevant national jurisdictions.

An opt-out can also be withdrawn. In most cases, withdrawing an opt-out will mean that the proprietor or licensee wishes to bring an

<sup>2</sup> Article 83 (1) UPCA

<sup>3</sup> Article 83 (3) UPCA

infringement action before the UPC on the basis of the concerned patent.

Under Articles 83 (3), an opt-out may be lodged by the “*proprietor or an applicant for a European patent*”. This means that the licensee does not have any say at all in this decision (!). It, therefore, seems appropriate to seek the contractual arrangements that could help to avoid difficulties in the relations between the parties to a license agreement regarding opt out.

In the first place, it will probably be relevant in most cases to involve the exclusive licensee in this decision, which will profoundly modify its rights. A consultation and decision-making mechanism on this subject should be included in European patent license agreements in force at the time of the arrival of the new system. Since opt-out is a new mechanism, it would certainly be preferable to include a specific clause in this respect, autonomous from those related to third-party infringement disputes.

On the other hand, as with the unitary effect, it seems essential to provide a mechanism for filing an opt-out request that complies with the formal requirements as quickly as possible. Indeed, an opt-out will be ineffective if it is filed after a third party has launched an action for revocation before the UPC. It is then essential to be able to file such a request swiftly if such an action is sensed. In particular, in co-ownership situations, it seems appropriate to provide effective decision-making mechanisms, or even to anticipate the decision by signing a power for the benefit of one of the proprietors, in order to avoid a less responsive proprietor to jeopardize the interest of all parties.

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### The licensee’s right to bring action

According to Article 47 UPCA, “*Unless the licensing agreement provides otherwise, the holder of an exclusive license in respect of a patent shall be entitled to bring actions before the Court under the same circumstances as the patent proprietor, provided that the patent proprietor is given prior notice*”. Of course, the proprietor will be involved in the hypothesis of a counter-claim for revocation<sup>4</sup>, but he will not have had a say in it, nor any delay in considering the advisability of the action.

This mechanism is much more liberal than many national laws. Indeed, according to the AIPPI report on Question No.190<sup>5</sup>, the exclusive licensee’s right to act is generally governed by stricter conditions and deadlines.

This is a change to be anticipated in the agreements if the proprietor does not want to be involved in judicial actions against its will.

Moreover, an action brought by a licensee may have irreversible consequences regarding the possibility of using the opt-out of Article 83 UPCA. Indeed, the actions initiated by a licensee will “freeze” the situation and paralyze the possibility of taking advantage of the opt-out and withdrawal mechanisms:

- If the licensee initiates an action before the UPC, it is then too late to protect the patent from a global revocation action by using the opt-out; one can imagine the catastrophic consequences that this can have when the proprietor has several licensees in the European territory; and
- If the licensee initiates an action before a national court, this definitively puts the patent outside the UPC system, even though this system has significant advantages (geographical scope of the decision, speed of decision, etc.) which the parties could have benefited from.

Proprietors should then carry out an audit of all the license agreements that will be in effect at the time of entry into force of the UPC. More specifically, it is necessary to review the clauses relating to the possibility for the licensee to bring an action, in order to ensure that they have control on such judicial actions. More generally, the clauses governing disputes toward third parties must be reviewed in order to avoid the pitfalls of the new system.

<sup>4</sup> Article 47 (5) UPCA

<sup>5</sup> <https://aippi.org/download/committees/190/SR190English.pdf>

