



Europe Economics

The potential impact of Brexit on the European Patenting landscape

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1 The potential impact of Brexit on the European Patenting landscape

On 23 June 2016 the UK voted to leave the European Union. The departure of the UK from the EU (also known as Brexit) will have a number of impacts on the European patenting landscape. The purpose of this note is to provide a high-level overview of how Brexit might affect the patenting landscape. In doing so I will distinguish between:

- direct legal implications arising once the UK departs the EU; and
- other potential economic impacts.

Notice that the potential implications of Brexit on Supplementary Protection Certificates (SPCs) — whilst potentially material — are not discussed in this note.

1.1 Legal implications

Currently firms and inventors seeking patent protection in the UK have two options:

- file to the UK Intellectual Property Office (UK-IPO) in order to obtain a UK patent grant that provides protection on the UK territory; or
- file to the European Patent Office (EPO) in order to obtain a European Patent (EP) grant, and then validate the European patent in the UK.

The necessity of a validation procedure is intrinsically linked to a key feature of the European patent system in its current format: the EPO provides a centralised grant procedure (so that those seeking protections in multiple European countries do not need to file patent applications at multiple National patent offices), however a EP grant does not result in a single patent right with unitary protection across Europe. Instead, a EP is effectively a “bundle” of national patent rights. This implies that:

- EP owners must validate and maintain (by paying annual renewal fees) individual patents in each country in which they wish to operate.
- Should a EP be infringed in multiple European markets, an owner can enforce his right only by litigating separately in multiple national courts.

From the discussion above it is evident that Brexit should not have direct legal implications for EPs owners. If a EP has been validated in the UK, the legal position of the EP owner is identical to that of a UK patent owner. Furthermore, The European patent system and the role of the EPO plays within it is ruled by the European Patent Convention (EPC), which is not a piece of EU legislation. Therefore, unless the UK decides to cease participation in the EPO, Brexit should not have a direct impact on traditional EPs.

The situation is different with regards to the future adoption of the Unitary Patent and Unified Patent Court (UP/UPC) package. Once the UP/UPC system is introduced, the EPO will be able to grant a single patent right with unitary protection in all EU countries.¹ This implies that:

- UP owners will not need to validate and maintain their patent rights separately in each EU country. Instead the UP can be maintained across the whole EU by paying a single renewal fee to the EPO.

¹ Excluding ES, HR, and PL.

- UP will be litigated and subject to the jurisdiction of the Unified Patent Court (UPC) instead of the national courts of each country.

Since the UP/UPC packages is an EU initiative, the role that the UK will play in it is more uncertain. This has a number of implications. First, in order for the UP/UPC to come into effect, the Agreement governing the functioning of the UPC must be ratified by the UK. This means that, until the position of the UK with regards to its participation to the UP/UPC becomes clearer, a delay in the adoption of the UP/UPC seems unavoidable. Second, if the UK decided not to participate to the UP/UPC there would be a number of potential economic impacts concerning the future usage and functioning of the UP/UPC. These are discussed below.

1.2 Potential Economic Implications

If the UK decides not to participate to the UP/UPC, those seeking protections in a number of EU markets, including the UK, would not be able to do so through the UP. Instead, they would be left with two alternative options:

- file to the EPO with a view of obtaining a UP, and then file separately also to the UK-IPO; or
- file to the EPO in order to obtain a traditional EP grant and validate this in the UK.

Overall, this means a decrease in the value of the UP because it will not cover one of the major European economies. As a result, the future uptake of the UP might be lower than it would be if the UK were part of it. We illustrate this idea more concretely with one example. Let us assume for simplicity that patent filing decisions are driven primarily by a comparison between the value that patent owners expect to extract from their patents and the cost they have to incur in order to keep their patents alive — i.e. patent renewal fees — (this means that, for the moment, we abstract from other important considerations such as the implication that choosing the UP has in terms of patent litigation). In 2015 the EPO proposed a fee schedule applicable to the UP which corresponds to the sum of the renewal fees currently paid for the four countries in which traditional EPs are most frequently validated today (namely Germany, France, UK and the Netherlands). Therefore, under the proposed UP renewal fee schedule, any applicant seeking protection only in Germany, France, the UK and the Netherlands, would be “at least” indifferent between a traditional EP and the UP (as matter of fact, he would probably prefer the UP because the wider geographical protection that the UP guarantees has an option value — e.g. over the time-life of the patent the applicant might find it attractive to operate in more European markets). Therefore, if the UK were to leave the UP/UPC project — unless the renewal fee schedule of the UP is decreased to reflect reduced of geographical protection — some applicants who would have chosen the UP over a traditional EP (e.g. those seeking protection only in DE, FR, UK and NL) might instead opt for the traditional EP.

Another implication of the potential departure of the UK from the UP/UPC project is related to patent litigation strategies. In their current format, the UPC rules of procedure, are a compromise between the common law, and the European civil legal system. If the UK departs from the projects, more aspects of the civil legal system (e.g. those currently in place in Germany) may have EU-wide application. For example a specific aspect of the UPC rules of procedure which might have important implications in terms of litigation is the condition under which an invalidity country-claim (i.e. a situation where a defendant accused of infringing a patent uses the defence that the patent is invalid) is going to be heard *separately* from the infringement case (the separation of infringement and invalidity hearings is known as *bifurcation*). Currently, the rules of procedure of the UPC state that that a panel of technically qualified judges will decide whether or not to bifurcate. Since the bifurcation is the norm in the German system, there might be concerns that, with the UK outside the UP/UPC, more cases will be bifurcated compared to a situation in which the UK remained part of the project. Firms in certain patent intensive sectors are of the view that a bifurcated system provides a key strategic advantage to non-practicing patent entities (i.e. firms whose business models

is based on monetising patents without selling products or services). Since decisions on infringement are usually quicker than those on validity, some firms feel that this provides a strategic advantage to non-practicing entities because such entities could be granted a Europe-wide injunction before the actual validity of the infringing patent has been assessed. In turn this may result in non-practicing entities having a greater bargaining power and being able to secure high licensing fees from practicing companies that are not willing to run the risk of an injunction even in the presence of potentially invalid patents.

1.3 Conclusions

Whilst the departure of the UK from the EU is unlikely to have consequences on the legal rights provided by traditional European Patents, a number of potential implications may be felt in relation to the future adoption of the UP/UPC. Without more clarity as to whether the UK will decide to be part of the UP/UPC projects, any view on the potential future impacts is speculative. Bearing this in mind, aspects that appear to be of particular importance are:

- The possibility that the adoption of the UP/UPC will suffer delays.
- Assuming that the UK will not be part of the UP/UPC projects:
 - A potentially lower uptake of the UP which reflects the decreased attractiveness of a reduced geographical protection.
 - Potential changes in the rules of precedence of the UPC or in their applications, which might have important consequence in terms of patent litigation strategies.