

# “Unitary patent” and court system – A poisoned gift for SMEs

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*This article reflects the personal opinion of the author.*

**On 16 February 2016, the German Ministry of Justice and Consumer Protection presented two pieces of draft legislation for the ratification of the international Agreement on the Unified Patent Court. After the fees for the “unitary patent” have been fixed and a proposal for the court fees and the limits of reimbursable representation costs at the Unified Patent Court has been provided, the political promise that the new system would support small and medium-sized enterprises (SMEs) can be judged against the realities. It does not come as a surprise that it is not being fulfilled. Most recently, even the European Commission declared that cost risk would be so significant that SMEs required an insurance to cover it, while admitting at the same time that currently no such insurance is available. An overview on desire and reality as to the costs of the “unitary patent” and the Unified Patent Court.**

## **I. Political core theme of the “patent package”: Support of SMEs**

From the outset, the support of small and medium-sized enterprises, so-called “SMEs”, was a key motif in the political efforts for the creation of a “unitary patent” and Unified Patent Court (“UPC”, both together afterwards “patent package” and “unitary patent package”) which were promoted as a means to ensuring SMEs a more cost-effective access to patent protection and patent enforcement.

According to Commission recommendation 2003/361/EC, “SMEs” are enterprises with fewer than 250 employees and either an annual turnover of no more than EUR 50,000,000 or an annual balance sheet total of no more than EUR 43,000,000.<sup>1</sup> The term covers micro enterprises,<sup>2</sup> small enterprises<sup>3</sup> and medium enterprises.<sup>4</sup>

The “patent package” makes a distinction: Some measures are reserved to SMEs in that sense, others are also available to further addressees not constituting an “enterprise” in the recommendation sense (natural persons, non-profit organisations, universities or public research centers), the latter are afterwards called “other entitled entities”.

<sup>1</sup> Commission Recommendation 2003/361/EC, Art. 2 (1) Annex.

<sup>2</sup> < 10 employees, annual turnover/annual balance sheet total ≤ EUR 2,000,000.

<sup>3</sup> 11 to 50 employees, annual turnover/annual balance sheet total ≤ EUR 10,000,000.

<sup>4</sup> 51 to 249 employees, annual turnover of EUR 10,000,000 to 50,000,000 or annual balance sheet total of EUR 10,000,000 to 43,000,000.

## **II. The starting position**

Already in the run-up phase to the legislative proceedings, the support of SMEs had been designated as the main objective of the “patent package”. Respective statements can be found already 1997 in the Commission’s “Green Paper on the Community patent and the patent system in Europe”<sup>5</sup> in which, for instance, a specific fee structure for SMEs was suggested.<sup>6</sup>

In 1998, the EU Parliament adopted a Resolution<sup>7</sup>, in which it demanded, amongst others, ready access to industrial property rights for SMEs and “a 50% reduction in the total costs of applying for a patent” for them.

In 1999, the Commission published a document titled “Promoting innovation through patents”<sup>8</sup> with follow-up measures to said Green Paper, again with a focus on the support of SMEs:<sup>9</sup>

*“The question of the cost of patents in Europe was largely perceived as one of the major causes of the difficulty which innovative enterprises, and particularly SMEs, had in gaining access to the patent system. Special efforts must be made to reduce these costs, wherever possible.”*

In it, specific proposals were made for measures benefiting SMEs:<sup>10</sup>

*“The cost of the patent in Europe is clearly perceived, particularly by small and medium-sized enterprises, as one of the major obstacles to the optimum use of the system. Influenced by the changes introduced in the United States, the European Parliament considers that SMEs should benefit from a 50% reduction in the cost of filing patents.”*

After a public consultation on the future patent policy in Europe had been held in 2006, the Commission concluded in its paper “Enhancing the patent system in Europe” in the year 2007:<sup>11</sup>

*“The existing system with the danger of multiple patent litigation has several consequences which weaken the*

<sup>5</sup> Document COM (1997) 314, p. 20, cipher 4.5.

<sup>6</sup> Fn. 5, S. 22, last para.

<sup>7</sup> Resolution dated 19/11/1998 on the Commission Green Paper on the Community patent and the patent system in Europe: Promoting innovation through patents.

<sup>8</sup> Document COM (1999) 42 final

<sup>9</sup> Fn. 8, p. 9, last para.

<sup>10</sup> Fn. 8, p. 18, cipher 3.7.1.

<sup>11</sup> Document COM (2007) 165 final, p. 5/6.

*patent system in Europe and make patents less attractive, in particular for SMEs.*

*First of all, it is costly for all parties involved. They must hire local attorneys and experts and pay court fees in all the countries where litigation is initiated. This is not necessarily a problem for big business. However, for many SMEs and individual inventors the costs of litigation can be prohibitive. They may have invested significant sums in obtaining a patent but then are simply not able to enforce it against infringements. This can empty the patent of any practical value.”*

In terms of the costs of patent litigation, it was stated:<sup>12</sup>

*“Patent litigation in the EU is unnecessarily costly for all parties involved. This is not as severe a problem for big business as for SMEs and individual inventors, for whom the costs of litigation can be prohibitive. Moreover, studies in the US and the EU have demonstrated that SMEs face a bigger risk of being involved in litigation. Potential litigation costs can substantially increase the risk associated with patenting R&D and thus also with innovation activity as such. Therefore, our patent strategy should involve a reduction of litigation costs for SMEs.”*

A need for action was also seen at the international level:<sup>13</sup>

*“As regards cost the gap in comparison with Japan and the USA must be significantly reduced, notably for SMEs.”*

### III. Patents and costs

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For all readers not intimately familiar with the patent system a brief and simplified description shall be given of the costs incurred in relation to patents, in order to facilitate the interpretation of the statements made in the legislative proceedings on the “patent package”.

Basically, a distinction needs to be made between two different levels: The granting side and the infringement side.

The grant of a patent is requested in an administrative procedure at the competent granting authority, aiming at obtaining a temporarily limited monopoly on the economic exploitation of an invention. In Europe, the applicant can presently choose between a purely national patent granted by the national Patent Offices and the so-called European “bundle patent” granted by the European Patent Office (EPO) based on the European Patent Convention (EPC). The “bundle patent” is not a consistent protective right, but a set of national patents of the EPC contracting states and can cover up to 38 states, depending on the request of the applicant. During the granting procedure, costs are incurred primarily for patent attorneys and for fees raised by the Office. Further, yearly renewal fees for upholding the patent protection have to be paid. These costs are incurred by the applicant, respectively the owner of the patent.

If the scope of a granted patent is infringed, an action needs to be started at the competent court. Here, costs are incurred for attorneys at law and patent attorneys as well as for court fees; further costs can be due e. g. for translations or party experts. These costs accrue on the side of the patent owner as well as on that of the opposing party, the court will allocate these costs in its decision at the end of the instance.

Legal redress is also possible against a granted patent (e. g. a revocation action), the cost situation is, in principle, similar to that of infringement litigation as mentioned above.

### IV. The European legislative proceedings on the “unitary patent package”

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During the EU legislative proceedings on the “patent package” – consisting of one Regulation on the “unitary patent” and one on the translation regime as well as the international Agreement on a Unified Patent Court (“UPCA”) –, the institutions in charge did not miss any opportunity to emphasize the extent to which especially SMEs would benefit from its realisation.

Although the course and contents of a legislative procedure at EU level can usually not be followed easily since written protocols are prepared only to a very limited extent, a protocol text<sup>14</sup> exists on the “patent package” which has been composed from audio and video recordings and allows recalling the motives communicated by the Commission, Council and Parliament.

#### 1. The support of SMEs as a core objective

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During the legislative proceedings, it was repeated in an almost mantra-like fashion that the “patent package” was meant to serve especially SMEs, facilitate their access to patent protection and reduce costs, many speakers underlined this over and over again.<sup>15</sup> As an example, *Raffaele Baldassarre* can be cited who, at that time, was an MEP (EPP group) and the rapporteur for the Regulation on the translation regime (translation from Italian):<sup>16</sup>

*“I really think that by approving these proposals for a unitary patent, we will pave the way for a patent system which is legally certain, cost-efficient, that will serve the interests of small and medium-sized companies and will support innovation and European competitiveness.”*

The statements on the savings to be expected by the “unitary patent” could virtually not be taken far enough: 70 percent,<sup>17</sup> 75 percent,<sup>18</sup> 80 percent.<sup>19</sup> Although the founda-

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<sup>12</sup> Fn. 11, p. 7, “costs”.

<sup>13</sup> Fn. 11, p. 12, third para.

<sup>14</sup> *Stjerna*, The Parliamentary History of the European “Unitary Patent”, ISBN 978-3-7345-1742-6 (Tredition 2016), afterwards “verbatim protocol”.

<sup>15</sup> Cf. verbatim protocol (fn. 14), paras. 26 f., 91, 264, 322, 539, 545, 771 f., 1413, 1415.

<sup>16</sup> Verbatim protocol (fn. 14), para. 1256.

<sup>17</sup> Verbatim protocol (fn. 14), paras. 539, 1256.

<sup>18</sup> Press statement of the Association of the German Industry (BDI) „Gute Nachricht für den Patent-Europameister Deutschland“ (“Good news for European patent champion Germany”) of 11/12/2012; SPD Europa (German Social Democratic Party in

tions of these calculations were at best unclear, these values were euphorically taken up in the press.<sup>20</sup>

Also the alleged savings through a UPC were praised.

Prior to the vote in the EU Parliament on 11 December 2012, *Klaus-Heiner Lehne*, at that time MEP (EPP group) and rapporteur on the UPCA, described the alleged advantages of the new system as follows:<sup>21</sup>

*"I believe that, indeed, this is an enormous step forward for small and medium-sized enterprises. (...) [With the new patent system] for the first time, equality of arms is created between large companies and small ones. And for me, this is a definitive example of why what we are going to approve today is a major step ahead for the SMEs (...)."*

*Bernhard Rapkay*, MEP (S&D group) and rapporteur on the "unitary patent" Regulation<sup>22</sup>, added:

*"In order to assert the protection in court, it is necessary, in case of doubt, to go to 25 countries. Now, one is enough. Anyone saying that it has become more expensive for small and medium-sized enterprises, this is his secret, but this is not at all plausible. In fact, this is indeed an improvement for small and medium-sized enterprises."*

## **2. The implementation by the EU legislator: No cost determination in the "unitary patent package"**

Despite all promises by the political operators on the alleged savings caused by the "patent package", its parts do not contain any definite provisions on costs. Included were only some general principles to be taken into account for the designation of costs at a later stage.

### **a) Regulation 1257/12 on the "unitary patent"**

Regulation 1257/2012 on the creation of the "unitary patent" simply maintains that the new system would be cheaper and thus foster innovation.<sup>23</sup> However, binding determinations making sure that lower costs are truly achieved are not being made. Art. 12 (2) on the level of the renewal fees of the "unitary patent" merely stipulates that it should be set *"taking into account the situation of specific entities such as small and medium-sized enterprises"*. An improvement of the situation for SMEs is not required.

Europe), Newsletters July 2012 and December 2012.

<sup>19</sup> Verbatim protocol (fn. 14), para. 1270; press statement of the German Federal Government of „EU-Patentrecht ist auf dem Weg“ ("EU Patent Law is on its way") of 12/04/2013; Council press statement "EU unitary patent: a big boost for innovation" vom 17/12/2012.

<sup>20</sup> „Einheitspatent schafft Chancengleichheit“ ("Unitary patent creates equal opportunities"), Association of German Engineers (VDI) Circular of 04/01/2013.

<sup>21</sup> Verbatim protocol (fn. 14), paras. 1413, 1415.

<sup>22</sup> Verbatim protocol (fn. 14), para. 1431.

<sup>23</sup> Reg. 1257/12, recital 4.

### **b) Regulation 1260/12 on the translation regime**

Regulation 1260/2012 on the translation regime ("R 1260/12") is framed a little more definite. The so-called "good faith rule" (Art. 4 (4) R 1260/12) and a compensation scheme for certain translation costs (Art. 5 R 1260/12) were included as particular measures for the support of SMEs. When having a closer look at these, however, decisive limitations become apparent which diminish their effectiveness.

#### **aa) Good faith rule**

The good faith rule provides for a limited liability of SMEs and other entitled entities being sued for patent infringement, if, due to a lacking translation of the patent in question, they did not know or could not know about the infringement. According to its wording, the provision is only applicable in "a dispute concerning a claim for damages". It cannot be applied to other claims, in particular the cease and desist claim, although they can have a much harsher impact than the damages claim. Hence, a situation could arise in which an SME is not liable for damages due to good faith, but is nonetheless not allowed to sell its product any longer, as a result of the cease and desist claim. It is unclear why the legislative idea has not been framed independent of the asserted claim.

#### **bb) Compensation scheme for translation costs**

Under Art. 5 R 1260/12, SMEs and other entitled entities can demand, up to a ceiling, a reimbursement of the costs for filing a patent application in an official language of the EU that is not an official language of the EPO. However, translations which have to be prepared for the purpose of a legal dispute (cf. Art. 4 (1) to (3) R 1260/12) are excluded. Pursuant to Art. 4 (3) R 1260/12, costs for these have to be borne by the patent owner. As the costs for such translations can often reach a very substantial amount, the granted privilege is at best incomplete.

#### **c) UPCA**

The UPCA shows a similar lack of concrete specifications on financial parameters. Neither the court costs nor the extent of reimbursable costs have been determined.

#### **aa) Court fees**

It was only specified that the court costs would have to be fixed with a view to ensuring fair access to justice for SMEs and other entitled entities (Art. 36 (3) 2 UPCA). *"Targeted support measures (...) may be considered"* for them, without this being required (Art. 36 (3) 5 UPCA).

In the same fashion, the minutes of the signing of the UPCA merely recommend that *"specific tools"* be created for SMEs and other entitled entities, as to allow them proper access to the UPC.<sup>24</sup> Once again, the absence of specific legislative requirements seems surprising as a respective regulation would make sense if the promised support of SME was truly desired.

<sup>24</sup> Council document 6572/13, p. 4, cipher 8.

## **bb) Reimbursable costs**

According to Art. 69 (1) UPCA, the losing party has to bear the “*legal costs and other expenses incurred by the successful party*” up to a ceiling, unless equity requires otherwise. For the details of this provision, reference is made to the Rules of Procedure.

### **3. Cost calculations made on an unsuitable basis**

From the outset, the extent of possible savings through the “unitary patent package” as announced in the legislative proceedings was unrealistic, already due to a doubtful calculation basis, and was harshly criticized.

#### **a) Skewed cost comparison with the European “bundle patent”**

The actual costs on which the political comparative calculations were made were mostly incomplete as the focus was put only on the costs for obtaining the patent,<sup>25</sup> leaving the renewal fees completely aside.

Further, cost comparisons of “bundle patent” and “unitary patent” were often based on the impractical assumption that the applicant of a “bundle patent” would seek protection for his invention in all 25 EU member states initially<sup>26</sup> taking part in the creation of a “unitary patent”.<sup>27</sup> However, on average, protection is only requested for three to six states.<sup>28</sup> Only in some technological sectors (like chemistry or pharmaceuticals), it is common to seek protection for all or a large part of these member states.<sup>29</sup>

Moreover, the territory covered by a “unitary patent” does currently not include such important markets as Spain or Poland and – as a matter of fact – no non-EU countries like Switzerland. Protection for these countries needs to be sought in addition to a “unitary patent”, at additional costs.

The political operators also assumed that for each application for a “bundle patent”, enormous amounts of translation costs would have to be paid, this was identified as the main cost driver.<sup>30</sup> Despite the fact that, once again, the unrealistic assumption of an application covering 25 EU member states was being relied on, it was disregarded that the London Agreement<sup>31</sup> limited translation requirements as of 1 May 2008. This fact alone significantly reduced the

<sup>25</sup> Cf. the former Commissioner *Barnier*, verbatim protocol (fn. 14), para. 1105 or the press statement of the German Federal Government of 12/04/2013, Commission document “Cost Comparison: Classic European Patent versus new Unitary patent”.

<sup>26</sup> In September 2015, Italy joined as the 26th member state, cf. Commission decision (EU) 2015/1753 of 30/09/2015.

<sup>27</sup> Verbatim protocol (fn. 14), paras. 227, 264, 539, 545, 1413.

<sup>28</sup> *Pagenberg*, GRUR 2012, 582 (583, r. col.); *Rox*, “EU-Patent – Kostenreduzierungen deutlich übertrieben” (“EU Patent – Cost reductions are clearly exaggerated”), Platow Brief of 05/06/2013.

<sup>29</sup> *McDonagh*, Exploring Perspectives of the Unified Patent Court and Unitary Patent within the Business and Legal Communities, p. 23, second para., p. 41, accessible at [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/328035/UPC\\_Study.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/328035/UPC_Study.pdf).

<sup>30</sup> Verbatim protocol (fn. 14), paras. Rz. 78, 218 f., 1466, 1488.

<sup>31</sup> [www.epo.org/law-practice/legal-texts/london-agreement.html](http://www.epo.org/law-practice/legal-texts/london-agreement.html).

alleged financial advantage of the “unitary patent” over a European “bundle patent”.

In an investigation of the House of Commons on the usefulness of the UPC, which is worth reading, the fundamental misconceptions underlying the promised volume of financial savings through the “unitary patent” were commented critically on by the British Chartered Institute of Patent Attorneys (“CIPA”).<sup>32</sup>

*“We have seen no reliable estimates for renewal fees or of litigation. Nevertheless it is claimed that the new system will be considerably cheaper, to the particular advantage of smaller companies (SMEs). However, this claim is based on doubtful assumptions. Comparisons are made between the costs of obtaining protection by 25 separate national patents via the EPO route with the cost of a unitary patent. This shows the unitary patent to considerable advantage – it could be much cheaper. But whether an SME necessarily needs protection in 25 EU countries is not considered. No inventions are ever protected in all countries where patents can be obtained. The cost of rights obtained is roughly proportional to the number of countries in which patents are sought. The additional value of extra rights falls rapidly. An SME with a significant invention will rarely be well advised to file in all countries of the European Union.”*

#### **b) Wrong assumptions on the extent of duplicated patent litigation in Europe**

Similarly, the understanding that, under the European “bundle patent”, a large amount of duplicated patent litigation was taking place in EU member states was far from reality. On 11 December 2012, MEP *Raffaële Baldassarre* stated in the EU Parliament (translation from Italian):<sup>33</sup>

*“Furthermore, in case of disputes, the absence of a unitary system forces companies to start a separate proceeding in each country, very likely leading to different results in different countries. Accordingly, there is not even a common judicial system.”*

Even according to an examination of the Commission from 2011, only ten percent of all patent litigation disputes cover more than one member state,<sup>34</sup> 90 percent of cases are limited to one member state. The consequences of this unrealistic assumption for SMEs were summarized by Rechtsanwalt Dr *Jochen Pagenberg*:<sup>35</sup>

*“The promised substantial cost savings through the avoidance of parallel litigation will not be achieved for the large majority of parties, namely again for the SMEs. On average, only 5 - 8% of litigation in Germa-*

<sup>32</sup> The Unified Patent Court: help or hindrance?, p. 30, para. 134, accessible at [www.publications.parliament.uk/pa/cm201012/cmselect/cmeuleg/1799/1799.pdf](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmeuleg/1799/1799.pdf).

<sup>33</sup> Verbatim protocol (fn. 14), para. 1250.

<sup>34</sup> Preliminary Findings of DG Internal Market and Services – Study on the Caseload and Financing of the Unified Patent Court, p. 15.

<sup>35</sup> *Pagenberg*, GRUR 2012, 582 (585, I. Sp.).

*ny involve parallel proceedings in other EU countries, and not 20% as alleged in a study. In the large majority of cases it is precisely not SMEs that conduct these parallel proceedings and that could profit here. As a result initial estimates come to the conclusion that litigation costs will increase by at least a factor of three if one takes again today's' German cost as benchmark."*

The mentioned report by the House of Commons likewise emphasized that the large majority of patent practitioners expected significant cost increases for proceedings at the UPC,<sup>36</sup> especially for SMEs.<sup>37</sup> This expectation was confirmed in a study by British Intellectual Property Office (IPO) from 2014 in which, for the UPC, a cost situation similar to the current British level was held possible at which, for one instance, the costs for legal representatives and experts alone often reach GBP 1,000,000<sup>38</sup> – per party, of course.

## V. The costs of “unitary patent” and Unified Patent Court: Favorable for SMEs?

More than three years after the end of the legislative proceedings, the financial frameworks for the “unitary patent” and UPC have recently been substantiated. It is difficult to recognize that are favorable for SMEs.

### 1. Renewal fees for the “unitary patent”

It took until the middle of 2015 before the renewal fees for the “unitary patent” were presented. After a first proposal had been rejected as unattractive,<sup>39</sup> the EPO announced on 24 June 2016 that the fees for the whole 20-year-duration were set at EUR 35,555. This amount is based on the renewal fees which are to be paid for a European “bundle patent” with effect for the four most designated EPC contracting states (“TOP 4”). Still based on the aforementioned unrealistic assumptions, the EPO arrived at a likewise unrealistic savings volume:<sup>40</sup>

*“For comparison, the amounts payable under the current system in the same 25 member states add up to EUR 29 500 for the first ten years, and nearly EUR 159 000 for the full 20 years. In other words, the fee scale now endorsed for the unitary patent under the True Top 4 proposal corresponds to a reduction of 78% compared to the current situation.”*

In view of the Commission’s intent to close the “cost gap” especially to the US,<sup>41</sup> let us have a look at the cost situation there: The renewal fees for a US patent over its full duration of 20 years amount to approx. EUR 13,000, small and micro enterprises get a discount of 50 respectively 75

percent.<sup>42</sup> Thus, over the full lifetime of a “unitary patent” a European SME has to pay roughly five times more than its US counterpart for a respective US patent.

A fee discount for SMEs was not adopted, despite the fact that this has been demanded<sup>43</sup> for years. As a consequence, SMEs will have to pay the same fees as a large corporation. This in itself shows what the promises made in the legislative proceedings are worth in practice.

### 2. UPC: Court costs and cost reimbursement

In February 2016, the Preparatory Committee of the UPC (“PC-UPC”), responsible for making the court operational, submitted a proposal<sup>44</sup> on the court fees and the ceiling of representation costs which the losing party has to reimburse to the winner.

#### a) Designation of the value in dispute

In the centre of the calculation of court costs and reimbursement ceilings for representation costs is the value in dispute of the proceedings. This is to be determined subject to the “objective interest” pursued by the plaintiff with his action.<sup>45</sup> It is to be understood economically, focusing on a calculation of the hypothetical license fee which the defendant would have to pay for the product attacked as patent-infringing from its market entry until the lapse of patent protection.<sup>46</sup> As decisions of the UPC would have effect for all the (currently) 25 contracting states of the UPCA, it can be expected that cases with a value in dispute of EUR 5,000,000 and more will not be rare.

#### b) Court costs

According to Art. 36 (3) 2 UPCA, a fixed fee is to be paid for all proceedings. For certain proceedings (e. g. an infringement action, but not a revocation action) an additional value-based fee comes on top if the value in dispute exceeds EUR 500,000,<sup>47</sup> its maximum amount being EUR 325,000.

In order not to overload this article, only some fee examples for common constellations shall be given here.

The court fee for a patent infringement action with a value in dispute of up to EUR 500,000 is EUR 11,000.<sup>48</sup> For the same proceeding at a German Regional Court, currently EUR 10,608 would have to be paid. At a value in dispute of EUR 1,000,000 court costs of EUR 15,000 are due at

<sup>36</sup> UPC: help or hindrance? (fn. 32), p. 26, para. 118.

<sup>37</sup> UPC: help or hindrance? (fn. 32), p. 27, para. 121.

<sup>38</sup> McDonagh (fn. 29), p. 19, last para. and p. 21, last para.

<sup>39</sup> “European criticism on high renewal fees as proposed for Unitary Patent”, Kluwer Patent Blog, 26/03/2015.

<sup>40</sup> [www.epo.org/news-issues/news/2015/20150624.html](http://www.epo.org/news-issues/news/2015/20150624.html).

<sup>41</sup> Fn. 11, p. 14, third para.

<sup>42</sup> Bausch/Sach, How attractive will the European Patent with Unitary Effect be for Applicants?, Kluwer Patent Blog, 12/03/2015.

<sup>43</sup> Cf. the Commission Green Paper of 1997 (fn. 5) and the Resolution of the EU Parliament of 19/11/1998 (fn. 7).

<sup>44</sup> Document “Rules on Court fees and recoverable costs” of 25/02/2016, accessible at [www.unified-patent-court.org/news/upc-court-fees-and-recoverable-costs](http://www.unified-patent-court.org/news/upc-court-fees-and-recoverable-costs).

<sup>45</sup> Fn. 44, R. 370 (6) 1.

<sup>46</sup> Draft “Guidelines for the determination of Court fees and the ceiling of recoverable costs”, ciphers I.1., II.1. a) and b), accessible at [www.unified-patent-court.org/news/guidelines-determination-court-fees-and-ceiling-recoverable-costs](http://www.unified-patent-court.org/news/guidelines-determination-court-fees-and-ceiling-recoverable-costs).

<sup>47</sup> Fn. 44, R. 370 (2), (3).

<sup>48</sup> R. 370 (2) (1.), (3) and fee table (fn. 44, p. 9).

the UPC (DE: EUR 16,008), at EUR 5,000,000 the fee is EUR 43,000 (DE: EUR 59,208).

From the German perspective, the court fees are set at a comparable or even modest level. Due to the value-independent fixed fee of EUR 20,000,<sup>49</sup> revocation actions at the UPC are significantly cheaper than they are at the German Federal Patent Court, where the court fees are 50 percent higher than the values for the cited German infringement actions.

### **c) Reimbursable representation costs**

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The situation is completely different with regard to the suggested ceilings for reimbursable representation costs.<sup>50</sup> These cover one instance,<sup>51</sup> further costs for the expenses specified in R. 150 (1) of the Rules of Procedure, e. g. for party experts, witnesses or translations, come on top.

#### **aa) Calculation examples**

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For the examples used in the context of the court fees, the following reimbursement ceilings apply in a patent infringement dispute between two parties in first instance: At a value in dispute of EUR 500,000, up to EUR 56,000 are reimbursable (DE<sup>52</sup>: EUR 19,704.96), at EUR 1,000,000 up to EUR 112,000 (DE: EUR 28,089.96) and at EUR 5,000,000 up to EUR 600,000 (DE: EUR 99,489.96).

The same amounts apply to a revocation action.

In case the defendant accused of infringement files a counterclaim for revocation, the values in dispute of these proceedings are added<sup>53</sup> and the reimbursement ceilings are determined according to the overall sum. As a result of the progressive structure of the fee table this leads to a reduced ceiling of reimbursable costs, when compared to the values applicable to the isolated proceedings; it is, however, still significant and is many times higher than the amount reimbursable<sup>54</sup> under German law. Furthermore, it needs to be considered that the court can determine the value in dispute of the revocation action up to 50 percent above that of the infringement action<sup>55</sup> which will then lead to even higher reimbursement ceilings.

#### **bb) Adaptation of the ceilings by the court**

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Under the proposal the court is further granted the power to even raise the defined reimbursement ceilings “*in limited situations*”, e. g. “*a particular complexity of the case or multiple languages being used in the proceeding*” at the request of one party.<sup>56</sup>

Likewise, at the request of one party, the court can lower the defined ceilings without a limit, if the award of costs of the predefined amount would threaten the “economic existence” of the applicant.<sup>57</sup>

### **cc) Interim conclusion**

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After all, the feared cost increase up to the British level seems to become a reality.

If it is pointed out that the UPC renders decisions for all signatory states of the UPCA and thus for a larger market, this is as such correct. However, it does not mean that the facts of the dispute would multiply and cause many times more work for the attorneys involved. This can easily be seen in the currently existing cases which cover multiple member states and in which the relevant issues and the underlying facts are mostly identical.

Insofar, the suggested reimbursement ceilings appear to be immensely high, at least when compared to the current level of costs reimbursable under German law. Although it is underlined that said ceilings would only form a “safety net” and should not be understood as the standard values,<sup>58</sup> in all experience, it would be surprising if the beneficiaries in each case would not do exactly the latter.

### **d) Measures in support of SMEs**

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The proposal also includes measures which are meant to facilitate access to the UPC for SMEs, their effectiveness is again doubtful.

#### **aa) Reduction of court costs**

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Small and micro enterprises in the sense of Commission recommendation No 2003/361 are granted a discount of 40 percent on the court fees,<sup>59</sup> this is not available to medium enterprises.

At the same time, the court is empowered to not only revoke a cost reduction granted to an SME, but to also impose an additional punitive surcharge of 50 percent against it. A granted discount can be cancelled if payment of only 60 percent is “*manifestly disproportionate and unreasonable*” in view of the financial capacity of the small or micro enterprise.<sup>60</sup> Further, the court is allowed to revoke the discount and impose payment of a 50 percent surcharge, if the information provided on the status as a small or micro enterprise is wholly or partially incorrect.<sup>61</sup>

As a consequence, a micro enterprise can ultimately owe 50 percent more in court costs than a large corporation would in the same situation. Said 50 percent surcharge is independent of any default and seems to fully apply even if the information provided is incorrect only to a minor extent. Already the fact that different kinds of behavior – the provision of fully or partially incorrect information – will indiscriminately cause the same legal consequence

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<sup>49</sup> R. 370 (4) (1.) and fee table (fn. 44, p. 7 f.).

<sup>50</sup> Art. 1 (2) Draft Decision (fn. 44, p. 13).

<sup>51</sup> Art. 1 (3) Draft Decision (fn. 44, p. 14).

<sup>52</sup> Containing the statutory fees for attorney at law and patent attorney, without further costs.

<sup>53</sup> Draft Guidelines (fn. 46), cipher II.2.b.(4), p. 4.

<sup>54</sup> Summation of the statutory fees for attorney at law and patent attorney in infringement and revocation proceedings.

<sup>55</sup> Draft Guidelines (fn. 46), cipher II.2.b.(2)(ii), p. 2.

<sup>56</sup> Art. 2 (1) Draft Decision and explanation (fn. 44, p. 14, 21).

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<sup>57</sup> Art. 2 (2) Draft Decision and explanation (fn. 44, p. 14, 21).

<sup>58</sup> Fn. 44, explanation, p. 21, last para.

<sup>59</sup> Fn. 44, R. 370 (8).

<sup>60</sup> Fn. 44, R. 370 (8) (d) (1).

<sup>61</sup> Fn. 44, R. 370 (8) (d) (2).

indicate a problem with the principle of proportionality. Also, the surcharge of 50 percent appears to be arbitrary.

#### **bb) Reduction of cost reimbursement ceilings**

The mentioned option of a party to apply for a reduction of the cost reimbursement ceiling if the award of costs of the predefined amount would threaten its economic existence is available to SME and other entitled entities.<sup>62</sup> For its decision, the court shall take into account all available information, for instance the procedural behaviour, the applicable reimbursement ceiling in relation to the parties' annual turnover and the impact of a reduction on the party entitled to reimbursement.

#### **e) Legal aid**

Although this is not part of said proposal, for the sake of completeness, it should be mentioned that, pursuant to Art. 71 UPCA, also legal aid is available at the UPC. However, it is reserved to natural persons, legal persons are excluded. In its already mentioned examination from 2011, the Commission commented on this in an almost relieved manner:<sup>63</sup>

*"In practice, patent litigation almost always involves companies, and very few cases involve natural persons. It is therefore safe to assume that legal aid will not constitute a significant cost factor for the UPC."*

If supporting SMEs and allowing them to operate at the UPC on an equal footing was truly desired, it would almost be obligatory to open access to legal aid also for legal persons as it is common practice in some EU member states. The cited statement, however, makes it pretty clear that the support of SMEs is no longer that important for the political operators if this entails a cost risk. Therefore, despite any purported care for SMEs, access to legal aid is defined as narrow as possible, the most effective way of doing so probably being its limitation to natural persons which, in the present context, will empty legal aid of any practical meaning. As correctly pointed out by the Commission, natural persons almost never show up as a party to a patent dispute and if they do, they usually do not require financial support.

#### **f) Interim conclusion**

The court costs at the UPC, especially in their discounted form, should usually be affordable for SMEs. This is not the case for the suggested ceilings for representation costs, all the more since further costs will come on top. Most of all, various exceptions and discretion for the court result in a lack of predictability which will render the use of the UPC an adventure for the usually risk-averse SMEs.

All measures for SMEs ignore the fact that they will also require legal representation, will have to pay for translations and probably experts if they wish to operate on equal

terms before the UPC. The Commission is well aware of this:<sup>64</sup>

*"In any discussion on the level of court fees at the UPC, it should always be kept in mind that a very substantial part of parties' costs will relate not to court fees but to costs of representation and experts."*

Cost reimbursement which can anyhow only be claimed by the winning party can be obtained only at the end of the dispute, until then all costs have to be financed. Nonetheless, measures for assisting SMEs with financing this usually biggest part of costs are missing, although they would require to be given first priority, at least if true support for them was really desired.

#### **VI. European Commission: SMEs require insurance at the UPC!**

It does not come as a surprise that already in October 2015, i. e. prior to the determination of court costs and reimbursement ceilings, the Commission warned in a working paper that the cost risk involved at the UPC would be so significant that SMEs needed litigation insurance – while admitting that such insurance is currently not available on the market. The Commission stated (emphasis added):<sup>65</sup>

*"The cost exposure for IP rights and particularly patent litigation is significant, hits SMEs disproportionately hard and acts as a serious deterrent for SMEs to engage in patenting in the first place. Indeed, under the Unified Patent Court, firms that lose a legal dispute will have to pay the court fees of the winner (provisionally estimated at a fixed fee of EUR 11 000 plus a value based fee of up to EUR 220 000). [Remark: Said maximum value is based on an outdated draft.] To this have to be added the winner's legal costs, which on the basis of the draft Unified Patent Court rules could amount to up to EUR 3 million. In addition, the losing party will typically also be required to pay damages. Such exposure can only be effectively addressed through a functioning IP litigation insurance market. Once the unitary patent (including the court and the official procedures) is in force, such a market – which did not develop at national level due to the too limited size of the market – could start to grow."*

This does not mean anything else than at the UPC, from the outset, SMEs' capacity to act is limited and that they are structurally handicapped, particularly in relation to larger competitors.

Interestingly, the creation of a suitable litigation insurance for SMEs has been on the political agenda as long as the creation of a Community patent and a patent court system themselves. Respective demands can already be found in the Commission's "Green Paper on the Community patent and the patent system in Europe"<sup>66</sup> from 1997 and in the

<sup>62</sup> Art. 2 (2) Draft Decision (fn. 44, p. 14).

<sup>63</sup> Study UPC Caseload and Financing (fn. 34), p. 102.

<sup>64</sup> Study UPC Caseload and Financing (fn. 34), p. 99.

<sup>65</sup> Document SWD (2015) 202 final, p. 71.

<sup>66</sup> Above fn. 5, p. 24, cipher 4.5.

Resolution of the EU Parliament<sup>67</sup> of 19 November 1998. In the Commission document “Promoting innovation through patents” from 1999, it is set out:<sup>68</sup>

*“The creation of an insurance system to provide legal protection in the event disputes involving patents is a valuable concept which should be examined in greater depth. The European Parliament considers that an insurance system covering the costs incurred in legal proceedings would give enterprises (in particular SMEs) a fair chance to defend their patent rights and thus strengthen their confidence in the patent system.”*

The importance of such insurance is also underlined in Commission document “Enhancing the patent system in Europe” of 2007.<sup>69</sup>

Why was the creation of suitable insurance measures for SMEs, which were part of the political considerations from the beginning, suddenly put outside the brackets in the legislative proceedings, although it had been recognized as a clear necessity for quite some time? Even now that the Commission has expressly admitted that the costs at the UPC are prohibitive for SMEs – referring them to a non-existing insurance means nothing else –, the “activation” of the “patent package” is not put on hold until the creation of respective insurance options as to first ensure equality of arms, but it is instead declared that such measures would be “considered” after its entry into effect.<sup>70</sup> Accordingly, the new system is set to be started although those involved are perfectly aware of the fact that SME will not be able operate in it on equal terms, especially vice versa financially stronger competitors. When bearing in mind that the “patent package” was promoted as a means of support for SMEs, this is a highly peculiar result.

## **VII. UPC’s suitability for SMEs: The Chairman of the Preparatory Committee prefers to remain silent**

Prior to preparing this article, I contacted the Chairman of the PC-UPC, *Alexander Ramsay* from the Swedish Ministry of Justice, to find out, amongst others, how the interests of SMEs were taken into account in his Committee. In an e-mail of 6 November 2015, I asked him:

*“For instance, who [on the Expert Panel] is representing the perspective of SMEs which, according to the political operators, are meant to be a major beneficiary of the “unitary patent” and UPC?”*

After he had avoided an answer in his reply at the beginning of December 2015, I asked again on 13 January 2016:

*“In relation to the composition of the Expert Panel, I was asking who represented the SME perspective as SMEs are said to be the major beneficiaries of the new system. You did not wish to comment on the absence of*

*an SME representative on this panel, stating that the latter was not “the only way the Committee brings in opinions of users”. (...) Is it also the position of the PC that SMEs would be the main beneficiaries of a UP/UPC system?”*

Again, I did not receive an answer. On 22 January 2016, I asked once more, now limited to the core question:

*“As regards the Expert Panel, I would like to repeat my earlier question as it has not yet been answered: Is it also the position of the Preparatory Committee that SMEs would be the main beneficiaries of a UP/UPC system?”*

Subsequent to repeated reminders, the following reply was received on 16 February 2016, still avoiding a material statement:

*“I believe I have provided you with answers to your questions and have no further comments. A closing remark from my side concerning your specific SME related question would be that the Preparatory Committee of course is guided by the wording of the [UPC-] Agreement also in respect of the interest of SMEs to this reform. I would in particular like to highlight the second recital concerning the difficulties SME experience today when wishing to expand (and enforce) their patent protection to other parts of the single market than their “home territory”. To come to terms with these difficulties is of course an important objective of the reform.”*

My final comment was:

*“Much to my astonishment, you (...) seem to be reluctant to provide a meaningful answer to my question whether the Preparatory Committee – in line with political operators – considers SMEs to be the main beneficiaries of a UP/UPC system. I was not asking which wording in the UPC Agreement would lend support to the allegation that this was the case, but for your position as the Chairman of the Preparatory Committee. However, the fact that you avoid a statement on this aspect is, I think, answer enough.”*

## **VIII. Conclusion**

All this shows that the alleged support of SMEs by the “unitary patent system” was nothing more than mere lip service in order to maneuver the “patent package” through the legislative proceedings as smoothly and quickly as possible.

Prior to the vote on the “patent package” on 11 December 2012, rapporteur *Bernhard Rapkay* warned:<sup>71</sup>

*“I tell you: Those voting against the patent package today are playing the game of large corporations. They are playing the game of large corporations against the SMEs, there can be no doubt about this!”*

<sup>67</sup> Letter C.

<sup>68</sup> Above fn. 8, p. 18, cipher 3.7.2.

<sup>69</sup> Above fn. 11, p. 17, cipher 3.4.2.

<sup>70</sup> Document SWD (2015) 202 final, p. 71: “..., the Commission will consider extending its efforts to the following measures:”.

<sup>71</sup> Verbatim protocol (fn. 14), para. 1433.



The “patent package” is detrimental to those it alleges to support, namely SMEs, and serves the interests of only a handful. *Pagenberg* pointed this out at the end of 2012 already, when he was asking:<sup>72</sup>

*“Did nobody want to notice that nearly 80% of the users, among them the SMEs, are bearing all the disadvantages, while those who need protection in 25 countries - not even 30% of the users - got everything they wanted?”*

To summarize it with the words of the aforementioned IPO study from to 2014:<sup>73</sup>

*“The costs of the new system are likely to hit SMEs the hardest.”*

First of all, one would expect that no new system is passing the legislative procedure *before* its costs are adequately clear, especially if exceptional financial advantages are promised for it. One would at least expect the legislator to establish clear legislative requirements to make sure that any questions left open at the end of the legislative proceedings will be answered in line with the targets pursued. Nothing of this has happened. Consequently, it does not come as a surprise that the final design of the “patent package” does not have much in common with the initially propagated motive of supporting SMEs.

This, although simple and effective measures for supporting SMEs are obvious: On the granting side, a discount on the office fees and on the enforcement side the expansion of legal aid to legal persons and the creation of an appropriate litigation insurance scheme. Such steps could support SMEs in a far more effective manner than instruments of limited use like said good faith rule or the compensation scheme for translation costs. However, this would of course require the willingness to finance such instruments. As this is missing, placebo measures are relied on instead, the costs of which are manageable and which can be sold as means of support, even if their practical effect is very limited.

It can be ascertained that the structural disadvantages of SMEs that were loudly lamented throughout the legislative proceedings on the “patent package” are not reduced by the “patent package”, but are perpetuated instead. Beneficiaries of the “unitary patent package” are those needing geographically broad patent protection and having the necessary financial resources to pay the costs announced for this and for enforcement in court. The primary objective, however, was the support of SMEs.

The fact that this objective is apparently clearly missed, deprives the legislative package of its legitimacy and the question arises why a national legislator should actually put such system in effect by ratifying the UPCA. Should

the expressly designated objective of SME support not be abandoned, there are only three options left:

- no ratification of the UPCA,
- postponement of the ratification until the cost situation has been amended in favor of SMEs, or
- postponement of the ratification until market availability of the required litigation insurance.

In their entirety, SME are by far the largest employers, their problems are always the problems of their employees and thus of a large number of European citizens. For this reason alone, this matter deserves a broad discussion in the national Parliaments of the affected EU member states. Of the 25 member states having signed the UPCA, so far nine<sup>74</sup> have ratified – of 13 necessary for its entry into force –, 16 ratifications are still open. Insofar, any interested citizen should bring the matter to the attention of the MEP competent for his/her constituency and demand that, prior to its ratification, a broad Parliamentary discussion on pros and cons of the “patent package” should be held. If it is to enter into force in the present form, especially SMEs will have to live with it, this will usually not be to their advantage.

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<sup>72</sup> *Pagenberg*, Exclusivity, Transitional Arrangements and Opt-out - Risk of financial disaster for small companies in patent litigation, p. 17, cipher 4.

<sup>73</sup> *McDonagh* (fn. 29), p. 40, second para.

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<sup>74</sup> Austria, Belgium, Denmark, France, Luxembourg, Malta, Portugal, Sweden and Finland.