

# Unified Patent Court Advantages Leave US Trailing Behind

By **Vincent Angwenyi, Roberto Dini and Mario Franzosi** (June 22, 2023)

The Unified Patent Court and Unitary Patent System, which launched on June 1, will benefit patent holders and add to Europe's attractiveness as a litigation venue. It will also have a broader impact on the global patent landscape.

Over the past decades, U.S. patent enforcement has been handicapped by inter partes review of issued patents, the weakening of injunctive remedies by the U.S. Supreme Court's 2006 decision in *eBay Inc. v. MercExchange LLC*[1] and other actions taken across the U.S. government. Amplifying the shortcomings of litigation in the United States, the new UPC regime will put further pressure on American legislators.

The difference between the United States and Europe in the treatment of patents is increasingly clear against a backdrop of continuing growth of industries depending on patents and their efficient enforcement. As readers are well aware, and as confirmed in a recent study of the U.S. National Science Foundation in 2020,[2] knowledge and technology-intensive industries contributed some 11% of the global gross domestic product.

The importance to national GDP, employment and trade flows has been demonstrated in the United States, as assessed by the U.S. Patent and Trademark Office in March 2022,[3] and in the European Union, as highlighted in the joint report published in October 2022 by the European Patent Office and the EU Intellectual Property Office.[4]

Further studies, for example issued by the Information Technology and Innovation Foundation in 2019,[5] indicate that stronger intellectual property rights correlate to increased trade, with countries having similar levels of IP rights protection.

As these findings indicate, a robust framework for the protection, including enforcement, of IP rights is paramount.

## The Unitary Patent System and the Unified Patent Court

While the regional importance, and global trade flows, of knowledge-intensive industries remain robust, the EU and the U.S. have taken different approaches in enforcement of patents. This difference has an impact today on enforcement choices, in the midterm on investment and levels of innovation and ultimately on GDP and living standards.

Europe has moved ahead by taking one of the most consequential steps in relation to the enforcement of patents: the establishment of the UPS.[6]

As reflected in the regulation establishing unified patent protection, the objective of the UPS is to enhance cooperation between the participating member states in the field of patents by making available a European patent with unitary effect.[7] Pursuant to an



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agreement among participating member states, it also sets up a UPC operating under its own statute to improve the enforcement framework of patents and ensuring expeditious and high-quality decisions.[8]

Like any negotiated framework, the UPS was not realized overnight. Although the core regulations establishing the UPS were adopted in January 2013, the UPS entered into force on June 1. It essentially introduced two main elements:

- The UPC whose exclusive jurisdiction covers all European patents and European patent applications, European patents with unitary effect as well as supplementary protection certificates; and
- A unitary patent right that provides a single patent right covering all participating member states that take part in the enhanced cooperation.

Currently, 17 member states of the EU have ratified the UPC agreement: Austria, Belgium, Bulgaria, Denmark, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Sweden. Spain, Poland and Croatia decided to stay out of the UPC.

The remaining EU member states are signatories but have not yet ratified the UPC agreement.[9]

The establishment of the UPC with decision-making powers applicable to the participating member states is a bold step, with a number of potentially significant benefits for both patent owners and implementers of patented technologies.

The UPC is essentially a new specialized supranational court that will be starting from a clean slate but drawing upon the experience of its judges and subject to review by the European Court of Justice.

The UPC has a wide range of remedies that it may employ in case of infringement, including wide discretion in relation to the grant of injunctive relief against infringers as well as against intermediaries whose services are used by infringers.[10]

For European patents with unitary effect, this would mean an injunction covering the territory of all participating member states. For European patents, this would cover the territory of the participating member states in which the European patent has been validated.

There is indeed a debate whether the local divisions of the UPC will follow the injunction practice of the participating member state in which the division is located. Some commentators consider that the UPC may adopt a patentee friendly approach, similar to that taken by the German and Dutch courts.[11]

Another significant benefit of the UPS is the increased flexibility in terms of strategic considerations for enforcement of patents in Europe.

While there is certainly the strategic choice for a patent owner to opt out their European

patents from the UPS during the transition period and choose instead to take a national route in terms of enforcement,[12] the true value of the UPS lies in the ability to enforce European patents with unitary effect in a single court instead of several national courts.[13]

This means that patent owners can obtain an injunction covering the territory of the participating member states, while of course taking the risk that the UPC may, conversely, take the decision, equally applicable across that territory, to revoke the patent.[14]

The ability to enforce patents in one court instead of several national courts in Europe will potentially result in significant cost savings, not only as it relates to court fees, but also costs for legal counsel as well as ancillary expenses. This is particularly the case for industries that typically tend towards EU-wide patent protection.

Looking, for instance, at the court fees,[15] the UPC has both a fixed fee element as well as a value-based fee for cases with a value above £500,000 (\$546,285).

The maximum value-based fee is £325,000 (\$355,000) for cases with a value exceeding £50 million (\$54.6 million). The value-based fee is not applicable to revocation cases or counterclaims. There is additionally a broad scale of recoverable costs depending on the value of the case.

To put this in context, looking broadly at the cost of litigating in Germany, a first instance infringement action, together with a revocation action, with a combined value of around £10 million (\$10.9 million) would give rise to court fees of around £180,000 (\$196,000), with the recoverable cost element being around £200,000 (\$218,514).

A similar UPC action has been calculated to give rise to court fees of around £63,000 (\$68,831), with the recoverable cost element going up to £800,000 (\$874,056).[16]

A replication of such fees on a national level across several European countries, taking into consideration likely variations in these costs as well as national peculiarities in patent enforcement, such as the bifurcated system in Germany, which affects the duration of actions, makes it easy to see the benefit in terms of uniformity of costs and procedure that a central action before the UPC will offer. A central action will also bring significant savings in terms of costs for legal counsel and ancillary costs.

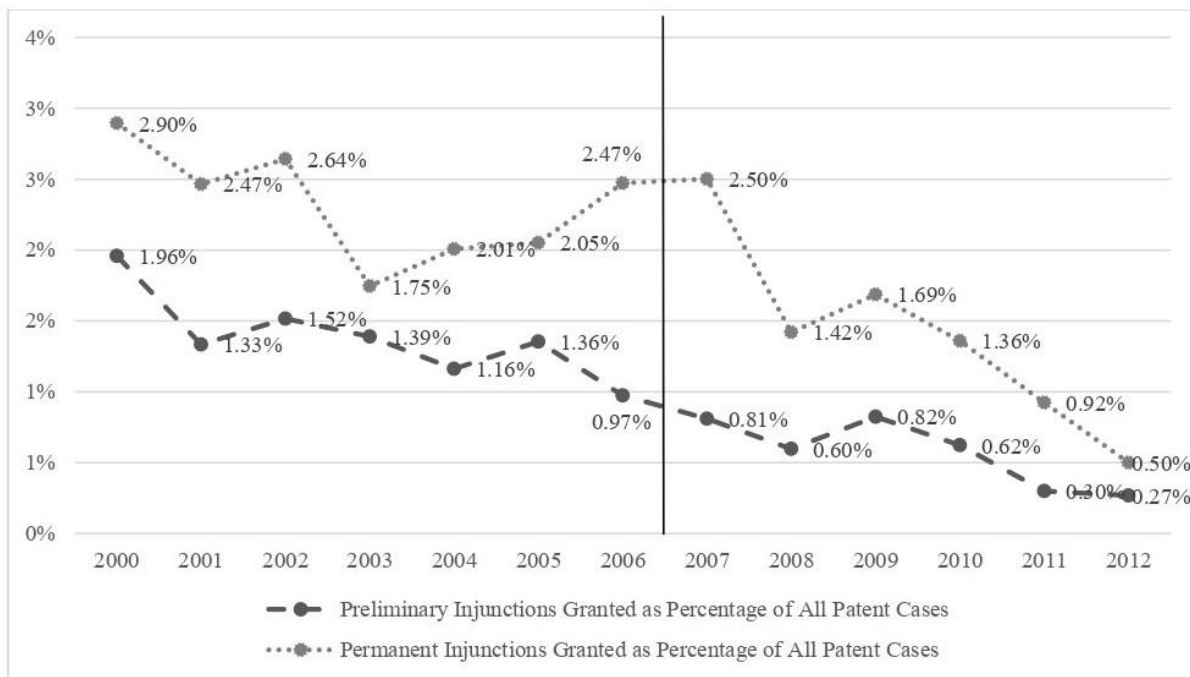
Considering the size of the UPS market, the overall cost savings in this regard as compared to litigating in the U.S. are significant, thus making litigation before the UPC an attractive first choice for patent owners.

### **The Current State of Patent Enforcement in the U.S.**

Compared to the evident progress in patent enforcement in Europe, patent owners in the United States have faced increasingly difficult challenges in protecting and enforcing their IP rights in recent decades.

First, in 2006, the Supreme Court's decision in *eBay* overturned the long-standing American rule that courts should issue permanent injunctions against patent infringement absent exceptional circumstances. As reflected in a 2015 study,[17] the effect of the ruling drove the permanent injunction grant rate to miniscule levels.

***Graph: Rate of Injunctions Granted Sought Before and After eBay Based on Total Patent Cases***



In 2007, the Supreme Court, with the *KSR International Co. v. Teleflex Inc.* decision,[18] again took aim at patent owners, criticizing the U.S. Court of Appeals for the Federal Circuit's "teaching, suggestion, motivation" test for obviousness under Title 35 of the U.S. Code, Section 103.

In its place, the Supreme Court proposed several criteria that could be used to invalidate a claim for obviousness. The effect of the Supreme Court's ruling was once again striking: One study by the Albany Law Journal of Science and Technology found a sevenfold increase in the willingness of district courts to invalidate patents under Section 103 after *KSR*.[19]

But the Supreme Court was not finished.

In the *Quanta Computer Inc. v. LG Electronics Inc.* case[20] in 2008, the court ruled against patent owners on the issue of exhaustion. In 2010, it took up a series of cases related to subject matter eligibility under Title 35 of the USC, Section 101, concluding with the landmark *Alice Corp. v. CLS Bank International* decision in 2014.[21]

Again, the Supreme Court's jurisprudence had a massive impact. Compared to the five years prior to the *Alice* decision, the first five years afterward saw a 1,056% increase in the number of decisions finding ineligible claims under Section 101.

The court then took aim at venue, the location of the court of first instance where the patentee can sue for infringement. In 2017, the court confirmed in *TC Heartland LLC v. Kraft Foods Group Brands LLC*[22] the limitation in the patent venue statute that

any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

Once again, the impact was immediate and significant, as filings in plaintiff-favored districts fell precipitously.[23]

The Supreme Court has not been alone in the United States in undercutting the value of patents and hobbling their enforcement. The legislative and executive branches also have taken actions adverse to patent rights.

In 2011, Congress applied further pressure to patent owners with the passage of the Leahy-Smith America Invents Act. Among its provisions, it established a new post-grant validity challenge procedure, inter partes review.

The procedure allows for the filing of a petition to challenge the prior art validity of any granted patent. The petitioner can be any party, though if the petitioner is the target of a patent infringement lawsuit, the petition must be filed within a year of service of the complaint.

The petition is considered by the Patent Trial and Appeal Board and if the PTAB finds that the petition demonstrates a "reasonable likelihood" that the challenged claims are invalid, the review is initiated.

By and large, inter partes review has been a powerful tool against patent owners. Since its inception, 53% of petitions resulted in at least some claims cancelled, amended or disclaimed, excluding settlements and procedural dismissals.

Further, once instituted, just 10% of reviews terminated with all claims upheld as valid. And finally, district courts have granted stays of litigation pending inter partes review in well over 70% of ongoing cases.[24]

These stays often result in a delay of the court proceedings for two years or more, as PTAB decisions are reviewed on appeal. While the PTAB must follow the "reasonable likelihood" test in order to institute a petition, nearly three-fourths of all PTAB decisions on institution have in fact result in allowing the petition to go forward.

Perhaps most distressing for patents owners is the fact that an inter partes review can be instituted any time over the life of a patent. Thus, a patent owner gains very little certainty regarding the validity of the patent even after going through an exhaustive review process during the prosecution of the underlying application.

This also undermines the authority of the USPTO when it grants a patent. Given the high invalidation rates at the PTAB, a decision to grant a U.S. patent by the patent office might be thought of as merely a provisional decision.

Thus, with no time limitation, there is a considerable risk that an inter partes review might be filed, which represents a significant threat to the validity of the patent. This sword of Damocles threatens to interfere with all licensing and enforcement actions of a patent owner throughout the life of the patent.

In addition, this effort made by a third party to check the patent validity before the PTAB seems to be a duplication of efforts, taking into account that a validity check is already provided during the litigation proceeding.

Therefore, attacking the validity of a patent before the PTAB, not knowing if this patent is

commercially valuable and will be asserted against somebody in the future, should be considered as a waste of time and money, done only in favor of particular economic interest meant to increase the already exorbitant costs of litigation in the United States.

All this stands in direct contrast with the European system, in which members of the public can only challenge validity of a published patent within nine months of publication. Otherwise, validity challenges can only be filed by parties that have been sued for infringement.

Finally, to add further insult to injury, the executive branch has added additional challenges to patent owners seeking exclusion orders at the U.S. International Trade Commission.

In 2013, the Obama administration overrode the ITC exclusion order that would have banned the importation of certain iPhones and iPads in light of infringement of Samsung standard-essential patents. In its letter addressed to the ITC, the administration cited "various policy considerations" relating to SEPs and "the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers." [25]

## **Conclusion**

The above cases, statutes and executive actions are not exhaustive, but outline the increasing challenges facing innovators in the U.S. The basis, means and forums within which a patent can be found invalid have increased. At the same time, the available remedies for patent infringement have decreased.

Moreover, the treacherous path to enforcement of patent rights in the United States comes at a significant price, with attorney fees through trial averaging several million dollars. The pendulum has been swinging in favor of infringers for so long that patentees wonder when it will ever swing back. They begin to despair of whether the pendulum has broken off.

It is not the intention of this article to paint the picture that the UPC does not have its disadvantages for innovators, including the uncertainty of a new system with untested value, the potential to have a central revocation, fragmentation of jurisprudence as well as having a multilayered legal structure in Europe. [26]

Rather it is to highlight how the UPC represents an effort to support innovators with an organized, cost-effective and meaningful path to enforcing IP rights. We take the liberty to suggest that if the United States hopes to maintain its position as a leader in innovation, it may be wise to follow suit and reverse its present course.

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[1] eBay v. MercExchange, LLC, 547 U.S. 388 (2006). Available at: <https://supreme.justia.com/cases/federal/us/547/388/>.

[2] National Science Board, National Science Foundation 2020, Production and Trade of Knowledge- and Technology Intensive Industries. Science and Engineering Indicators 2020. Available at: <https://nces.nsf.gov/pubs/nsb20205/>.

[3] United States Patent and Trademark Office, Intellectual property and the U.S. economy: Third edition (2022). Available at: <https://www.uspto.gov/ip-policy/economic-research/intellectual-property-and-us-economy>.

[4] A joint project of the European Patent Office and the European Union Intellectual Property Office, IPR-intensive industries and economic performance in the European Union (2022). Available at: <https://www.epo.org/news-events/news/2022/20221011.html>.

[5] Information Technology & Innovation Foundation (ITIF), The Way Forward for Intellectual Property Internationally (2019). Available at: <https://www2.itif.org/2019-way-forward-ip.pdf>.

[6] Additional information on the Unitary Patent System are available at: [https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/patent-protection-eu/unitary-patent-system\\_en](https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/patent-protection-eu/unitary-patent-system_en).

[7] Council Regulation (EU) No 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements; AGREEMENT on a Unified Patent Court (2013/C 175/01). Available at <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:361:0089:0092:en:PDF>.

[8] Agreement on a Unified Patent Court (2013/C 175/01). Available at: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:175:0001:0040:En:PDF>.

[9] Constantly updated information on UPC Member States are available at: <https://www.unified-patent-court.org/en/organisation/upc-member-states>.

[10] UPC Agreement, Arts 62, 63.

[11] See for instance Juve Patent, Injunctions at the UPC. Available at <https://www.juve-patent.com/sponsored/simmons-simmons-llp/injunctions-at-the-upc/>.

[12] UPC Agreement. Art 83.

[13] UPC Agreement Art 32.

[14] UPC Agreement. Arts 63, 65.

[15] See [https://www.unified-patent-court.org/sites/default/files/upc\\_documents/ac\\_05\\_08072022\\_table\\_of\\_court\\_fees\\_en\\_final\\_for\\_publication\\_clean.pdf](https://www.unified-patent-court.org/sites/default/files/upc_documents/ac_05_08072022_table_of_court_fees_en_final_for_publication_clean.pdf) and <https://www.unified-patent-court.org/en/registry/court-fees>.

[16] See for instance <https://www.bardehle.com/en/ip-news-knowledge/ip-news/news-detail/upc-court-fees-and-cost-reimbursement>.

[17] Gupta, Kirti and Kesan, Jay P., Studying the Impact of eBay on Injunctive Relief in

Patent Cases (July 10, 2015), University of Illinois College of Law Legal Studies Research Paper No. 17-03, Available at SSRN: <https://ssrn.com/abstract=2629399> or <http://dx.doi.org/10.2139/ssrn.2629399>).

[18] KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398 (2007).

[19] Mojibi, Ali, An Empirical Study of the Effect of KSR V. Teleflex on the Federal Circuit's Patent Validity Jurisprudence, (2010). Albany Law Journal of Science and Technology, Vol. 20, No. 3, p. 101, 2010, Available at SSRN: <https://ssrn.com/abstract=1518607>.

[20] Quanta Computer, Inc. v. LG Elecs., Inc., 553 U.S. 617 (2008).

[21] Bilski v. Kappos, 561 U.S. 593 (2010); Mayo Collaborative Services v. Prometheus Labs, Inc., 566 U.S. 66 (2012); Alice Corp. V. CLS Bank Int'l, 573 U.S. 208 (2014).

[22] TC Heartland LLC v. Kraft Foods Grp. Brands LLC, 137 S. Ct. 1514 (2017).

[23] Alex Chachkes and Josh Montgomery, TC Heartland's Impact in 2018 (December 12, 2018).

[24] Amy Han, Forrest McClellan, Michelle Armond, What the Latest Case Data Reveals About Stays Pending IPR (March 7, 2022), available at <https://www.law360.com/articles/1470979>.

[25] Irving A. Williamson, RE: Disapproval of the U.S. International Trade Commission's Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Investigation No. 337-TA-794 (August 13, 2013).

[26] See for instance Hilty, Reto M, The Unitary Patent Package: Twelve Reasons for Concern, 2012, 5 pp. (together with Thomas Jaeger et al.). <https://www.ip.mpg.de/en/publications/details/the-unitary-patent-package-twelve-reasons-for-concern.html>.