

**IP2iIP2Innovate calls for UPC judges to receive training to promote proportional remedies and counter abusive patent litigation tactics**

**The UPC training curriculum for judges should incorporate information on the importance of proportionate remedies, preventing injunction gaps, and effective fee shifting as tools to avoid abusive patent litigation practices.**

**European innovators and European leadership in high tech markets are under threat**

The patent landscape in today's fast growing high-technology areas is increasingly complex. Artificial intelligence, connected homes and cars, Industry 5.0 and the broader internet of things all involve multi-feature, integrated products that are often covered by hundreds if not thousands of patents. The days of just a few patents being associated with a single product are gone; most information and communication technology (ICT) patents today cover only specific features of a much more complex product. Any new entrant to these high-tech markets, especially SMEs, face a patent thicket in which unintentional infringement of even one trivial or invalid patent can result in their product being removed from the market, with devastating and disproportionate impact to the company and consumers.

The threat of this scenario hurts European innovation, and ultimately consumers, in several ways. Innovators are deterred from investing in research, development and commercialization of new products. Those that do move forward despite the risk may overpay for patent licenses and settlements based on their need to avoid an injunction on an entire product rather than the true value of the patented technology. Other innovators may simply shut down because of their inability to overpay. These outcomes directly contradict the goal of the European patent system to foster innovation.

**The UPC should actively safeguard European innovation by emphasizing judicial discretion to prevent abusive patent litigation practices**

The Unitary Patent and the Unified Patent Court (UPC) promise to raise the quality and efficiency of the European patent system by allowing owners of European patents to benefit from a single court where they can enforce their patents and obtain remedies with direct effect in all contracting member states. However, the UPC's potential to support innovation in Europe to the benefit of all Europeans will be fulfilled only if its judges recognize the importance of safeguarding the patent eco-system from abuse and they exercise their authority to do so.

Certain aspects of the UPC make it vulnerable to abusive litigation practices. In particular:

- the availability of a Europe-wide injunction if given automatically following a finding of infringement;
- the potential for an "injunction gap" in which an injunction is awarded before patent validity is assessed; and
- the inability of fee-shifting to provide a sufficient deterrent to abusive behaviour.

Abusive litigation practices are a serious and growing concern in European patent litigation. This is demonstrated by the increasing activity of patent assertion entities (PAEs) in Europe<sup>1</sup> who take advantage of these same aspects as they currently exist in national patent litigation. PAEs are the owners of a significant number of patent applications at the European Patent Office (EPO) and they target mainly the ICT industry. Most of the PAEs operating in Europe do not innovate, create or sell new products: they have business models built around monetizing their patents, rather than using them to make innovative products.<sup>2</sup> They are financial vehicles that buy up patent portfolios to bring litigation and demand settlements from producing companies. There is significant concern among businesses that this PAE model will grow significantly when the UPC is implemented unless certain safeguards can be put into place.

IP2i believes that the ability of the UPC to increase innovation in Europe and avoid the negative effects discussed above will increase substantially if judges are aware of these dynamics, including how their use of discretion and a commitment to proportional remedies can support the patent system's goals. For that reason, IP2i would like to see the UPC curriculum and guidance incorporate information on the importance of proportionate remedies, preventing injunction gaps, and effective fee shifting as tools to avoid abusive patent litigation practices.

### **Judges should receive training and guidance on the economic impact of a Europe-wide injunction against complex products and how application of the proportionality requirement can promote European innovation**

When an asserted patent relates to a single or trivial feature of a highly complex product, the threat of an immediate injunction against the entire product gives the patent owner tremendous unmerited bargaining power over the accused infringer. The defendant would have to stop production, remove products from stores and distribution channels, redesign the affected part of the product, get the new part or product certified by public authorities, and redesign its documentation and marketing upon receiving an injunction order. The injunction will impact not just the patented technology, but many non-infringing aspects of the product for which the defendant may have made large investments. And because the practice of courts in Europe has been to award injunctions effectively automatically in almost all cases following a finding of infringement, the threat of litigation in the UPC and a potential Europe-wide injunction will result in companies settling and making payments based on the benefits of avoiding the risk of a disproportionate injunction rather than the value of the patented technology, even if they consider the patent assertion invalid. Particularly in cases involving complex/multifunctional products involving the accidental infringement of one patent that represents a trivial value of the overall value of the product, innovators are likely to be forced to pay exorbitant settlement fees or risk the financial harm that would result from the entire product being removed from the market. For example, Copenhagen Economics examined the dispute between Broadcom Inc and Volkswagen AG and Audi AG, and found that the estimated settlement payment made by Volkswagen and Audi exceeded the value of the invention covered by the infringed patent by more than ten thousand times<sup>3</sup>.

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<sup>1</sup> Between 2007-2017, the average annual growth rate of patent actions related to PAEs was 19%, as documented in the report by Darts-ip 'NPE Litigation in the European Union', 17 February 2018, available at <https://www.dartsip.com/npe-litigation-in-the-european-union-facts-and-figures/>.

<sup>2</sup> Valerio Sterzi, Cecilia Maronero, Gianluca Orsatti, Andrea Vezzulli, *Non-Practicing Entities in Europe: an Empirical Analysis of Patent Acquisitions at the European Patent Office*, November 2021.

<sup>3</sup> Copenhagen Economics, *Economic implications of automatic injunctions in German patent litigation*, August 2019, available at <https://www.copenhageneconomics.com/publications/publication/economic-implications-of-automatic-injunctions-in-german-patent-litigation>.

The situation is even more egregious when the defendant is an SME and the recalled product provides their only source of revenue. SMEs are on the front line in new tech-related patent-heavy fields such as the Internet of Things. Inevitably over time they are going to be exposed to more complex intellectual property issues. The problem of attacks from opportunistic PAEs is one that could be a killing factor<sup>4</sup>.

European law, in Article 3 of Intellectual Property Rights Enforcement Directive (IPRED), provides that EU Member States set out the measures, procedures and remedies to enforce IP laws, and that the enforcement of IP rights should be ‘fair and equitable’ and ‘proportionate’ and should provide safeguards against abuse<sup>5</sup>. In its Guidance document on the IPRED published in November 2017, the Commission states that when considering remedies, “the competent judicial authorities should generally conduct a case-by-case assessment” of the specific features of the IP right and the character of the infringement<sup>6</sup>. In its Communication on SEPs released the same month, the Commission is even more explicit: “given the broad impact an injunction may have on businesses, consumers and on the public interest, particularly in the context of the digitized economy, the proportionality assessment needs to be done carefully on a case by case basis”<sup>7</sup>. The issue today in many EU jurisdictions is that this assessment does not happen in practice, particularly in the case of injunctive relief following a decision of patent infringement. In fact, recent data shows that for the period 2018-2020 courts handed out injunctions automatically in 98% of patent cases in which an infringement was found and a permanent injunction sought<sup>8</sup>.

The UPC must apply EU law,<sup>9</sup> including Article 3 of the IPRED and its requirements of equity and proportionality in remedies. Moreover, the Agreement on a Unified Patent Court (UPCA) gives judges the discretion whether to grant an injunction or to devise a more appropriate alternative remedy by stating in Article 63(1) that they “may grant an injunction.” This assessment required by the IPRED coupled with the exercise of discretion by judges in crafting appropriate remedies is critical to ensure that remedies awarded in patent cases are proportionate and do not produce effects beyond what is necessary to address the specific patent right in question.

Injunctions are very often appropriate remedies in patent cases, but a balanced approach must be applied in the UPC so that remedies are proportionate. In some cases, damages or a delayed injunction may be the best remedy. When assessing proportionality and determining the best remedy, the courts have and should consider such factors as:

- the impact of the injunction on the defendant compared to the harm to the patent owner from denial of the injunction;
- the impact of the injunction on third parties; and
- the public interest.

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<sup>4</sup> SMEs: the unseen victims of patent trolling, Euractiv, March 2020, available at: <https://www.euractiv.com/section/digital/opinion/smes-the-unseen-victims-of-patent-trolling/> .

<sup>5</sup> Article 3 of the IPR Enforcement Directive or “IPRED”

<sup>6</sup> COM(2017) 708 final, pp. 9-10

<sup>7</sup> COM(2017) 712 final, p. 10

<sup>8</sup> Press release by IP2Innovate, 25 November 2021, available at <https://ip2innovate.eu/news-media/contrary-to-eu-law-courts-across-europe-consistently-fail-to-consider-proportionality-in-patent-cases-new-data-reveals-349/?lid=420> .

<sup>9</sup> Agreement on a Unified Patent Court, Article 20

Evaluation of each factor will depend on the specific facts of a case. Facts relevant to the first factor include:

- whether the patent owner relies on the patent to protect a market position or distinguish its products in the marketplace, or whether the patent owner's primary business goal is to receive monetary compensation for licensing to others use of the patent; and
- whether an injunction creates leverage for the patent owner disproportionate to the value of the patented technology, such as when the infringement concerns a minor feature of a complex product.

If the proportionality requirement for remedies is not carefully assessed based on these factors, we expect to see increasing abuses of the patent system as patent owners attempt to leverage the threat of a Europe-wide injunction. The UPC Presidium should thus ensure, as it draws up guidelines for the training programme of UPC judges and supervises its implementation<sup>10</sup>, that UPC judges are made aware of how the IPRED's requirements and their own discretion regarding injunctions can promote innovation in Europe and curb abusive patent litigation practices and the rise of PAE suits.

### **Judges should receive training on the impact that the injunction gap can have on innovators and how to use discretion and case management to mitigate that harm**

In some cases, a defendant may wish to fight the patentee's infringement case based on a well-founded belief that the asserted patent is invalid. But the weakness of the asserted patent will not relieve the defendant from the pressure to overpay licensing and settlement fees if it may face an injunction before a court rules on validity – the so-called “injunction gap.” This situation creates the harms to innovation described above, and the court should guard against it.

The risk of an injunction gap exists at the UPC. While a local (or regional) division examining an infringement claim may bifurcate the subsequent revocation counterclaim of the defendant to the Central Division, it will be within the judge's discretion<sup>11</sup> to stay or not to stay the infringement proceedings pending a final decision in the revocation proceedings.

To mitigate this harm, the UPC Presidium should encourage that the UPC's Central Division accelerate bifurcated revocation proceedings<sup>12</sup> to reduce the possibility that an injunction will be issued on the basis of a patent later declared invalid. In the event that an injunction is granted before there is a ruling on validity, the training guidelines should encourage consideration of a stay of the infringement proceedings until validity is decided.

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<sup>10</sup> Article 15(3)(c) UPCA

<sup>11</sup> Article 33(3) UPCA, Rules 37(4) and (37.5) of the UPC. The court will be using discretion in determining whether there is a “high likelihood” that a patent will be held invalid in deciding whether to stay infringement proceedings.

<sup>12</sup> Rule 37(5) and Rule 40(b) of the UPC

## **Judges should receive training on the steps needed for fee shifting to serve as an adequate deterrent to abusive litigation behaviour**

Fee-shifting will not suffice to discourage abusive practices by PAEs under the UPC system if judges do not consider how a losing PAE can avoid paying the defendant's litigation costs. Under the rules, a successful defendant should be able to obtain the reimbursement of "reasonable and proportionate costs"<sup>13</sup>. However, a patent holder can construct a shell company having little or no assets so that, in the event it loses the patent litigation and receives an order to pay the winning side's fees, it can avoid payment. This is a common strategy of PAEs<sup>14</sup>. Understanding the operation and impact of this strategy will be important for judges who must determine when to require a party to provide a security to ensure the recovery of the winner's legal costs<sup>15</sup>. The guidance for UPC judges should reflect that, when a judge sees a patent owner that appears to be underfunded in order to avoid fee-shifting, the court should require that the patent owner post a security before allowing the case to proceed.

***Intellectual Property 2 Innovate (IP2I) is a coalition of small and large companies that create innovative products and services in Europe and collectively hold thousands of European patents, as well as European industry groups that represent in total over 40 companies. Our members include Adidas Group, Amadeus, BMW, Bull (Atos), Daimler, Dell, Deutsche Telekom, Freebox, Intel, Google, Microsoft, Nvidia, Proximus, SAP, Spotify and Wiko. We have joined together to call attention to the need for a robust, balanced and flexible patent legal system that can keep pace with digital innovation in Europe.***

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<sup>13</sup> Rule 152 of the UPC

<sup>14</sup> Valerio Sterzi, Jean-Paul Rameshkoumar, Johannes Van Der Pol, *Non-practicing entities and transparency in patent ownership in Europe*, Bordeaux Economics Working Papers, June 2020, BxWP2020-10, p. 6

<sup>15</sup> Article 82, Rule 158 and Rule 352 of the UPC