

## **IP2Innovate calls for UPC judges to receive training to counter abusive patent litigation tactics**

### **European innovators and European leadership in high tech markets is under threat**

The patent landscape in today's fast growing high-technology areas is increasingly complex. Artificial intelligence, connected homes and cars, Industry 4.0 and the broader internet of things all involve multi-feature, integrated products that incorporate high-tech products and systems and 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 infringement of even one trivial or invalid patent can result in their product being removed from the market, with devastating impact to the company.

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 preventing abusive patent litigation practices**

The Unitary Patent and the Unified Patent Court (UPC) hold great promise to raise the quality and efficiency of the European patent system. Owners of European patents will undoubtedly benefit from a single patent with reduced fees and the jurisdiction of a single court where they can enforce their patents and obtain remedies with direct effect in all contracting member states. Importantly, the UPC has the potential to support innovation in Europe to the benefit of all Europeans, provided its judges recognize the importance of safeguarding the patent ecosystem and promoting innovation, and they act to 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 limited fee-shifting to provide a sufficient deterrent to abusive behavior.

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 who take advantage of these same aspects as they currently exist in national patent litigation. PAEs do not innovate; they do not create or sell new products. They are financial vehicles to buy up patent portfolios and to bring litigation and demand settlements from producing companies. There is significant concern among business that this PAE business model will grow significantly when the UPC is implemented unless certain safeguards can be put into place.

IP2I considers 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 can support the patent system's goals. For that reason, IP2I requests that the UPC curriculum incorporate information on abusive patent

litigation practices and available remedies, in particular addressing the disproportionate leverage created by injunctions against complex products.

### **Judges should receive training on the economic impact of a Europe-wide injunction against complex products and how the use of judicial discretion can promote European innovation**

When an asserted patent relates to a single, even trivial, feature of a highly complex product, the threat of an immediate injunction against the entire product gives the patent owner tremendous 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 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 businesses understand that many European courts view the award of an injunction as automatic following a finding of infringement in the UPC, even a threat of patent litigation will lead some defendants to settle and make payments based on the benefits of avoiding the injunction rather than the value of the patented technology, even if they consider the patent assertion invalid. This is particularly true in the case of SMEs whose businesses often depend on a single product.

European law 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>1</sup>. In its recent Guidance document on the IPRED, 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>2</sup>. In its Communication on SEPs, 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>3</sup>. The issue today in most EU jurisdictions is that this assessment does not regularly happen in practice, particularly in the case of injunctive relief following a decision of infringement.

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.” Despite the fact that the UPC must apply EU law, including Article 3 of the IPRED, which requires equity and proportionality in remedies, the optional character of UPCA Article 63 language is often used to argue that Member States do not have to apply the proportionality assessment. This assessment, or exercise of discretion by judges in crafting appropriate remedies, is critical to ensure that remedies awarded in patent cases are proportional and do not produce effects beyond what is necessary to address the specific issue in question. This interpretation is confirmed by the Commission in its recently published IP Package.

Injunctions are very often appropriate remedies in patent cases, but a balanced approach must be applied in the UPC so that remedies are proportionate to the value of the patented invention. In some cases, damages or a delayed injunction may be the best remedy. If this is not done, we can expect to see increasing abuses of the patent system. The number of PAE cases will continue to grow as PAEs misuse the threat of an injunction to obtain settlement payments from their targets.

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<sup>1</sup> Article 3 of the IPR Enforcement Directive or “IPRED”

<sup>2</sup> COM(2017) 708 final, pp. 9-10

<sup>3</sup> COM(2017) 712 final, p. 10

## **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>4</sup> to stay or not to stay the infringement proceedings pending a final decision in the revocation proceedings. The UPC's Central Division can also accelerate the revocation proceedings<sup>5</sup> to reduce the possibility that an injunction will be issued on the basis of a patent later declared invalid. But because there is no general binding rule on the Court to decide validity first, the possibility of an injunction gap remains. If that happens, courts should consider staying commencement of the injunction until validity is decided.

## **Judges should receive training on the ways that fee shifting can serve as an adequate deterrent to abusive litigation behavior**

Fee-shifting will not suffice to discourage abusive practices under the UPC system if judges do not consider the actual costs to defend a litigation. Under the rules, a successful defendant will be able to obtain the reimbursement of "*reasonable and proportionate costs*" only, within the limit of the ceilings set for recoverable costs<sup>6</sup>. These costs invariably represent way less than the actual costs of litigation borne by the defendant. Although room for discretion may be limited by an applicable ceiling, the appreciation by the judges of the reimbursable costs will still be important to determine the recoverable amount and the situations where the complexity of a case may justify raising the ceiling<sup>7</sup>. This principle was reaffirmed by the European Commission in its Guidance on the IPRED where it states that "Article 14 of the IPRED precludes national legislation providing for flat rates which are too low to ensure that, at the very least, a significant and appropriate part of the reasonable costs incurred by the successfully party are borne by the unsuccessful party"<sup>8</sup>.

Most importantly, judges should understand how 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. 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>9</sup>.

## **A strong European patent legal system requires judges to exercise their discretion**

The European Commission acknowledges in its Communication entitled "A balanced IP enforcement system responding to today's social challenges" that an element to support

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<sup>4</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>5</sup> Rule 37(5) and Rule 40(b) of the UPC

<sup>6</sup> Rule 152 of the UPC

<sup>7</sup> Draft decision of the Administrative Committee of the UPC on the scale of recoverable cost ceilings, Article 2(1)

<sup>8</sup> COM(2017) 708 final, p. 8

<sup>9</sup> Article 82, Rule 158 and Rule 352 of the UPC

enforcement of IPRs, including patents, more effectively and consistently in the EU is to develop a comprehensive curriculum of seminars and training sessions for judges, which should involve learning practices among judges dealing with infringement cases<sup>10</sup>. The exercise of discretion by UPC judges, and especially the way judges take into account, and give appropriate weight to all relevant facts and circumstances of the cases, is crucial in patent cases to assess appropriate remedies with proportionality and equity. For judges to appreciate the need to exercise the full scope of their discretion, it is essential that they receive training that equips them to handle the most complex cases. By including information on abusive patent litigation practices, in particular the disproportionate leverage created by injunctions against complex products, the UPC curriculum will go far toward ensuring that the UPC protects European innovation.

***Intellectual Property 2 Innovate (IP2I) is a coalition of small and large companies that create innovative products and services in Europe. Our membership includes several European industry groups that represent over 50 companies. Members collectively hold many thousands of European patents. 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>10</sup> COM(2017) 707, p. 6