

Can you afford to litigate in the Unified Patent Court?

Anja Lunze and **Jan Phillip Rektorschek** examine strategies for litigating at the Unified Patent Court in the light of the Preparatory Committee's recently published draft proposal for the rules on court fees and recoverable costs

The long-awaited proposal for the fees and costs under the new Unified Patent Court (UPC) system reveals the approximate costs of litigation at the UPC: they will mainly depend on the value of action as set by the court, and this article therefore discusses the current, similar, practice of German courts for determining the value of a case. However, the fee proposal also suggests some surprising effects such as potential advantages for revocation plaintiffs in bifurcated proceedings, the financial advantages of provisional measures, and the significant financial risks of patentees exposed to several separate revocation actions.

July 31 2015 was the deadline for comments on the Preparatory Committee's draft proposal. The EPO announced the renewal fees for the Unitary Patent on June 24 2015. Both events were met with great interest. While the renewal fees have been widely discussed already, there has been mostly silence on the rules on fees and costs.

Renewal fees for the Unitary Patent

The renewal fees were approved by the Select Committee of the EPO Administrative Council on June 24 in the version of the True Top 4 proposal. According to the EPO, the Unitary Patent renewal fees will be less than €5,000 in the first 10 years and the total fees for maintaining the patent over the full 20-year term will amount to just over €35,000. By way of comparison, the current renewal fees in the 25 participating member states are about €29,500 for the first 10 years and over €158,000 for the full term of a European patent. What the EPO's calculation fails to consider is that there is hardly any European patent

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While the renewal fees for the planned Unitary Patent have generated a lot of comment, the draft proposal on the fees and recoverable costs in the Unified Patent Court has attracted less attention. The proposal divides actions and applications into two groups: infringement actions and actions for declaration of non-infringement attract a fixed court fee and an additional value-based fee for cases worth more €500,000 while revocation actions, preliminary injunctions and applications for opt-out are subject to a fixed fee only. It also sets out recoverable costs on a case value basis. Calculating the case value is therefore an important first step, and Germany provides useful guidance as it already has a similar system. Comparing proposed costs of the UPC with the existing systems in Germany and the UK suggests how the new system might be used: for example, applications for interim measures might be particularly attractive.

Table 1: Court fees in UPC, Germany and UK

Value of action (€)	UPC (€)	Germany (€)	UK (€)
1 million	16,000 (11,000 fixed fee + 5,000 value-based fee)	16,008	~14,000 (irrespective of the value of action)
5 million	41,000 (11,000 fixed fee + 30,000 value-based fee)	59,208	
10 million	66,000 (11,000 fixed fee + 55,000 value-based fee)	113,208	
30 million	161,000 (11,000 fixed fee + 150,000 value-based fee)	329,208	
50 million	231,000 (11,000 fixed fee + 220,000 value-based fee)	329,208	

that is validated in all 25 member states, let alone for the full 20 years. Thus, it is a legitimate question to ask how the EPO intends to compensate the loss in income that this substantial reduction of the fees (more than 70%) will likely entail, should the Unitary Patent prove to be as successful as anticipated by the EPO.

Draft proposal for rules on court fees and recoverable costs

Key elements of the draft proposal

With regard to the court fees (Article 36 (3) UPCA), actions and applications are divided into two different groups as proposed by the Preparatory Committee. The actions included in the first list attract a fixed court fee and an additional value-based fee for cases having an estimated value exceeding €500,000. Actions in this group include infringement actions and actions for declaration of non-infringement. The second group of actions is subject to a fixed fee only. This category includes revocation actions, preliminary injunctions and application for opt-out.

The proposal of the Preparatory Committee furthermore sets out caps on recoverable “costs of representation per instance and party” on a case value basis (according to Article 69 UPCA und Rule 152.2 RoP).

In addition, the Preparatory Committee furthermore considers two options for reducing fees in particular for SMEs. The first alternative provides for reimbursement of a certain proportion of fees to reward particular behaviours depending on the stage of proceedings: 60% if withdrawal/settlement occurs before the conclusion of the written procedure, 40% if it occurs before the conclusion of the interim procedure and 20% if it occurs before the conclusion of the oral proceedings. The second alternative enables the legal persons listed in 36

(3) UPC Agreement (SMEs, universities, non-profit organisations and public research organisations) to apply for an exemption for value-based fees. Furthermore, in both alternatives, it is possible for (all) parties to apply to the court for relief from fees (reimbursement of a fixed fee and reduction of the value-based fee) if the amount of payable court fees threatens their “economic existence”.

Finally, the draft proposal includes extensive “Explanatory notes” on the proposed rules, which refer in particular to the experience gained in Germany with the calculation of fees.

Calculating the case value

Whichever of the two alternatives of Rule 370.6 RoP is adopted in the end, an aspect of more practical importance will be the calculation of the case value as the financial risk in litigation strongly depends on the value.

Although the case value is of vital importance, the draft proposal offers no practical guidance as to how it shall be calculated. Rule 370.5 RoP merely states: “The assessment of the value of the relevant action shall reflect the objective interest pursued by the filing party at the time of filing the action.”

The explanatory notes of the draft proposal only state that guidelines shall be provided when the new system starts in order to facilitate the UPC’s work in the first years.

In fact, Germany is one of the few member states that now use a value-based system. The principles developed in German case law on calculating the case value will offer valuable guidance in determining the value of an action before the UPC. Until the UPC has formed its own case law, the rules developed in Germany will also be the only reliable practical basis for the risk analysis to be performed before the first proceedings are initiated. Given the clear references in the explanatory notes to the

Table 2: Recoverable costs in UPC, Germany and UK

Value of action (€)	UPC (€)	Germany* (€)	UK (€)
1 million	150,000	23,565	Winner typically receives 60% to 70% of their total costs from the other party (irrespective of the value of action)
5 million	600,000	83,565	
10 million	800,000	158,565	
30 million	1 million	458,565	
>50 million	3 million	458,565	

(*Germany is calculated on the basis of two attorneys (lawyer and patent attorney).)

German experience, it is likely that the UPC will closely follow the German practice in assessing the value of an action.

In an action for infringement of IP rights, the plaintiff usually claims for injunctive relief, disclosure and account, award of damages, destruction and recall or removal from the channels of trade. For lack of detailed knowledge of the extent of the plaintiff's loss, the damages are not quantified. The German courts determine an overall case value.

The case value of the claim for an injunction is defined mainly by the plaintiff's interest in having the infringing act stopped. The possible criteria to determine this interest include:

- remaining term of the IP right at the time of filing of the action;
- sales figures, size and market position of the plaintiff;
- nature, extent and detrimental effects of the infringing act;
- intensity of the risk of commission and repetition.

In recent years it has become common practice under German law to apply a hypothetical royalty regarding injunctive relief (licence analogy) to determine the value of the action. Based on the information disclosed by the defendant, the applicable licensee fee could be estimated and, thus, quantified. In addition to the infringer's revenues, the calculation includes an estimated revenue for the complete term of the patents. Hence, the formula for the calculation of the value usually is:

$$\begin{aligned} &\text{value of the matter} = \text{sales protected by the patent per year} \\ &\quad \times \text{reasonable royalty for the patent} \\ &\quad \times \text{remaining lifetime of the patent (in years)}. \end{aligned}$$

The Düsseldorf Court of Appeals (docket number I-2 W 15/11, May 10 2011) urges all parties to a litigation to disclose information about sales prices, sales volumes in Germany, market shares, customary royalty rates and average manufacturing costs.

This approach offers a documented calculation basis, giving

certainty to all parties involved. However, the other factors, such as the intensity of the infringement, that is to say the nature, extent and detrimental effect of the infringing act and the level of risk of commission and repetition, must not be ignored as they act to objectify the plaintiff's interest: if, for example, only the offering of a product is alleged to be patent infringing, the intensity of the infringement is significantly less than it would be if the product had been widely introduced to the market already.

For revocation actions, the German Federal Court of Justice has held (docket number X ZR 28/09, April 12 2011) that a case value consistent with the value of the infringement action "does not fully reflect the fair market value of the patent which normally exceeds the interest of the revocation plaintiff". In other words, the value of the patent usually exceeds this individual interest and the patentee's own use of the patent has to be taken into account as well. "Absent other evidence", the FCJ adds a fixed 25% uplift to the case value of the infringement action to obtain the value of the revocation action.

Although there are many parameters that allow for a transparent calculation of the case value, which is the only relevant basis for assessing the court fees and recoverable legal costs, the UPC has a wide scope of discretion here (as is shown also by the open definition in Rule 370.5 RoP). In particular, the relevant UPC territory in each case will have to be used as basis to calculate the potential reasonable royalty, which is likely to result in generally very high case values. In consequence, the argument often heard, that UPC proceedings will be less expensive than national proceedings before two to three national courts, will frequently not be true.

UPC court fees and recoverable costs compared with Germany and UK

Once the case value has been determined the maximum cost can be calculated relatively easily by means of the tables. For the

Table 3: Fees for revocation actions

Value of action (€)	UPC (€)	Germany (€)	UK (€)
1 million	20,000 (cap)	16,008	~670 (irrespective of the value of action)
5 million		59,208	
10 million		113,208	
30 million		329,208	
50 million		329,208	

infringement action and counterclaim for infringement a fixed fee of €11,000 has been proposed, to which an additional value-based fee between €5,000 (value of action up to and including €1 million) and €220,000 (value of action of more than €30 million) will be added. Compared to the cost of a legal action conducted in Germany, where the court fees depend on the value of the action as well, the UPC fees are considerably lower. In contrast, they are significantly more expensive than the present court fees in the UK (see table 1).

The picture turns around as soon as we look at the levels of recoverable costs of the parties: In UPC proceedings, they exceed the German sums many times over – which are also calculated on the basis of the case value – and are at best at the same level as the customary recoverable amounts in the UK (table 2).

Why the ceiling for the value of action is €30 million for the court fees (consistent with the maximum case value defined in the German law on legal costs), whereas it goes up to €50 million for the recoverable costs, is not addressed in the draft proposal.

Court fees and recoverable costs for revocation actions

The court fees for revocation actions and counterclaims for revocation are capped at €20,000. The full sum will be due if the revocation action is filed separately. The court fee for a counterclaim for revocation is calculated in the same way as for an infringement action: a €11,000 fixed fee plus a value-based fee, up to a cap of €20,000 in total, which applies in any case having a value of more than €1 million (for which the value-based fee is €10,000), which will ordinarily be the case.

The resultant court fees at the UPC will be clearly lower than the value-based court fees for revocation actions in Germany but significantly more expensive than the fixed fee in the UK (table 3).

The recoverable party costs in Germany and the UK are the same in the revocation action as in the infringement action (see table 2).

Will the recoverable costs encourage bifurcation?

In all likelihood, defendants that are facing a revocation action or infringement action will lodge a counter-claim for infringement or revocation in virtually every case.

What does this mean for the financial risk? As to the court fees, this question is quickly answered: The tables of the draft proposal supply a clear calculation basis for the counter-claims. The situation is not as simple for the winning party's recoverable costs. The table in the draft proposal fixes a ceiling for recoverable costs of representation "per instance and party". If a counter-claim has been filed and infringement and revocation are handled in a single, joint proceeding, this is probably regarded as one instance as there will only be one final judgment clearing both issues. By way of example, if the defendant wins because the patent is revoked and the infringement allegation is deprived of its ground, he can claim the recoverable costs for one proceeding set out in the table of the draft proposal.

However, if a separate legal action is brought instead of a counter-claim or bifurcation is chosen, the matter will normally be handled by two different divisions of the UPC – one for the infringement action and another one for the revocation action. Here, we are probably looking at two instances with separate cost recovery schemes. If the defendant wins both proceedings because the patent is revoked, he should be able to claim recoverable costs in both proceedings.

With a view to the financial risk involved, the defendant in an infringement action in particular has to carefully analyse the case for whether it is not tactically more advisable, at least if there are solid invalidity arguments such as prejudicial prior art, to initiate a separate action for revocation aiming at double cost recovery.

Costs used as leverage against the patentee

Given the very large sums which the court can award in recoverable costs, the language that the caps for recoverable

costs apply “per party” exposes the patentee to a high financial risk.

First, it is not uncommon, for example in pharmaceutical or telecommunication contexts where a patentee typically sues several market participants simultaneously for patent infringement, for a patent also to be challenged by several separate revocation actions at the same time.

Second, the cost recovery involves the risk of financially strong claimants putting the patentee under enormous economic pressure, for example by threatening to file several revocation actions (through several subsidiaries) against one patent, in order to push the patentee’s financial risk to a level where he agrees to refrain from enforcing the patent. Only patentees with significant financial resources would and can take the risk of losing several revocation lawsuits.

In Germany, the issue of the case value for the lawyer fees has been clarified by the courts: the Federal Court of Justice held in a ruling of August 27 2013 (docket number X ZR 83/10) that in the event of several revocation plaintiffs, the overall value of the action will not exceed the maximum of €30 million for purposes of calculating the court fees, but the full value will be applied to determine each plaintiff’s recoverable costs. This leads to an unpredictable multiplication of recoverable costs for the patentee in case of multiple revocation claims. The difference between Germany and the UPC is that the recoverable costs are considerably lower in Germany than before the UPC. Assuming a case value of €10 million and five revocation actions, the total recoverable costs amount to €792,825 (5x€158,565, only for the revocation actions). By contrast, at the UPC the total sum is up to €4 million (5x up to €800,000).

The only possibility for regulatory intervention by the court that we can see seems to be that the draft proposal only fixes ceilings (“up to”), which is to say unwarranted costs are not recoverable. On the other hand, the possibility of intervention also seems to be restricted to these limits, for there is no legal basis or other reason for reducing the costs, for example to prevent the patentee from becoming insolvent.

Good times for interim injunctions

For preliminary injunctions the draft proposal suggests only a €11,000 fixed fee in terms of the court fees. Unlike under the present German regime where value-based court fees are charged also in interim injunction cases, the value of the action is irrelevant for the court fees in provisional measures before the UPC.

With the risk of having to reimburse the other party’s costs, it will nevertheless be necessary to determine the value of the action as the recoverable costs depend on the above tables, also in applications for provisional measures. However it is doubtful whether the case value for provisional measures is in fact identical to the case value of an action on the merits in the same matter. German courts usually apply only 1/3 to 1/6 of the case value of the main action for a preliminary injunction case.

Opt-out fee

The draft proposal defines a fixed fee of €80 per patent for the application for opt-out and the withdrawal of an opt-out. At first glance, this appears to be a very reasonable fee. However, for companies holding extensive patent portfolios, such as pharmaceutical or IT enterprises, this can quickly become a substantial cost. A company owning 20,000 patents and patent applications will have to invest €1.6 million if it initially chooses an opt-out strategy. Although this is certainly manageable for most of the companies in question, they may not all be ready to accept this rule: the opt-out fee is an encroachment on existing proprietary rights in that a fee, levied retroactively, has to be paid merely to maintain the status quo. At least some member states will doubt whether this is reconcilable with constitutional law, and we expect that one or the other company will have the opt-out fee examined for lawfulness by a court.

For example, a value of the main action of €10 million would incur court fees of €66,000 and recoverable costs of up to €800,000 before the UPC, resulting in a total financial risk of €866,000. Assuming that the UPC will also apply only a proportion between 1/3 and 1/6 of the value of the main action to provisional measures, the resultant case value would only be roughly €1.6 million to €3.3 million. Thus, the financial risk including the €11,000 fixed court fee is between €211,000 and €411,000, which is only 25% to 50% of the main action. This alone makes provisional measures a relatively attractive weapon to efficiently enforce a patent throughout Europe.

Risks and rewards

In general, the criteria that have been developed in Germany to calculate the case value may be a suitable basis to determine the case value in the UPC system. In the absence of other tangible criteria, it is more than likely that the UPC will refer to these German criteria to assess the value of an action. Given the territorial reach of the UPC, this will initially result in high case values and thus major financial risks, especially with a view to the high out of court costs. In addition, the patentee is exposed to a considerable financial risk in the event of bifurcated proceedings on the one hand, and several parallel revocations actions by different plaintiffs on the other. With the UPC litigation costs generally being significantly higher than in many member states, the transitional period will be used by patentees and future patent applicants to carefully weigh up the drawbacks and benefits of the two systems, before deciding on the system where they will file and enforce their patents in the future.



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