

## **Opt-out**

Little has been discussed more in the drafting process than the possibility to exclude a patent or patent application from the entire package. The opt-out provisions to be observed are Articles 83 (3) and (4) and Rules 5.1 to 5.8. While on its face everything seems to be easy (“You file an opt-out with the UPC and you are out”), many aspects are unclear.

### **1. No opt-out for Unitary Patent**

There is no opt-out for a unitary patent. Articles 83 (3) and (4) UPCA pertain to “European patent[s] granted or applied for”. The term “European patent” is defined under Article 2(e) UPCA as a patent not benefitting from unitary effect.

Yet, Article 83 UPCA (as Rule 5.1) also allows an opt-out for a European patent applied for, hence, when a decision whether or not the patent owner wants to apply for unitary protection has not yet been made and no such motion was filed and could be filed. The issue arises what decisions are available for the patent-owner upon the grant of the patent. The European patent with unitary effect is to be granted by the EPO and not the UPC. The EPO could nonetheless construe an opt-out application with the UPC as a waiver of the right to apply for unitary protection. Yet, a waiver of a right must be clear, unambiguous and usually directed against the creditor. In case of an opt-out, the owner of the patent application wants to assure that his or her right is not dealt with by the UPC. An owner does not want to exclude rights. The owner might not even have a conscience that a waiver could be tied to an opt-out. Despite the obvious problem, there is even no provision in the UPCA or the Rules. Hence, it is rather that the EPO has to grant the unitary effect.

Upon grant of the unitary effect, the opt-out will become ineffective. The registrar shall rectify the register and withdraw the opt-out from the register.

### **2. Opt-out application**

A number of issues are of concern.

#### **2.1 General issues**

An opt-out application filed after entry into force of the UPCA is to be directed to the UPC. The Registry is in charge. Whether or not an opt-out with a sub-registry is valid is unclear. Since Article 10 UPCA distinguishes between Registry and sub-registry and even provides for a duty of the sub-registries to notify the Registry, it is recommendable to not try to act via the sub-registry.

The application needs to be lodged by somebody being admitted to the UPCA, i.e. not a party and not a patent attorney without the qualifications mentioned in Article 48 UPCA. This perhaps unpleasant formality results from the Registry being part of the UPC.

The application will only be successful as long as no national proceeding (which is possible during the transitional proceeding) has been started.

As to formalities, the application to opt-out shall contain the names and addresses of the proprietors and details of the patent including the designated contracting member states concerned.

A fixed fee has to be paid the amount of which has not yet been determined. Rumors range up to Euro 1.000 per patent. Under German law this would be illegal since administrative fees have to concur with the work executed. The discussed amounts show that patent owners shall be discouraged from opting out.

Registration shall take place "as soon as practicable." This is determined by payment of the fee (The Application shall not be entered in the register until the fixed fee has been paid.) and the work-load of the Registry.

## **2.2 More than one proprietor**

Rule 5.1 addresses the situation that the patent or patent application is owned by two or more proprietors. It provides that all proprietors shall lodge the application for the opt-out. The term "shall" makes clear that an application filed by less than all proprietors has to be deemed invalid. "Proprietors" are the applicants listed in the registry of the EPO or the respective national registries.

The proprietors must not opt-out for some countries (designations) only and remain subject to the UPC with respect to other countries. Opt-out applications have to be lodged with respect to all designations where the proprietors are the same.

Where proprietors are different in different contracting member states, the Rules appear to allow that as many opt-out applications can be lodged as there are groups of proprietors. Obviously, this allows a circumvention of the idea to a European patent either under the regime of the UPC

or the regime of national courts. The mere use of affiliates allows ensuring the access to both court systems.

### 2.3 Date when opt-out becomes effective

One of the most contentious issues is the date when the opt-out is or is deemed effective. In principle, Article 83 (3) (as well as the Rules) is clear in this respect. The opt-out shall be regarded as effective from the date of entry into the register. (But see the sunrise-period discussed below.)

The provision is unfortunate because it causes the date the opt-out becomes effective to depend on the speed of work of the Registry of the court. For whatever reason the drafters of the UPCA decided on registration instead of application as the crucial date (presumably to make opt-out difficult and unattractive) it is now on the books

There are some who appear to construe Art. 83(3) UPCA in that it shall fully apply only after expiration of the transitional period. Since Art. 83(3) UPCA refers to opting-out from the *exclusive* jurisdiction of the UPC, one can argue that there is no opting-out during the transitional period to the extent that dual jurisdiction is offered<sup>1</sup>. This interpretation can rely on the wording of Art. 83(3) UPCA but violates the intent of the provision i.e. to avoid the UPC. The drafters of the Rules of Procedure neither understand Art 83(3) UPCA this way. All talks about the sunrise period would make little sense. One cannot expect that the argument will prevail.

The wording of Article 83 (3) *inter alia* results in a scenario where (i) the UPC receives an opt-out application, (ii) subsequently the UPC receives for instance a revocation action and (iii) finally the Registry is about to enter the opt-out into the register.”

The Rules try to address this problem by Rule 5.5 and decide the conflict in favor of the action (in the example above the revocation action). The application for opt-out is deemed to be ineffective. Yet, the wording of Article 83 (3) UPCA provides:

*Unless an action has already been brought before the Court, a proprietor .... shall have the possibility to opt out .... To this end they shall notify their opt-out to the Registry .... The opt-out shall take effect upon its entry into the register.*

Applying the wording one has to decide the meaning of the term “effect upon its entry into the register”. It can mean – as Rule 5.5 appears to suggest - that an opt-out can only be registered as long as no action has been brought before the court. However, it is also possible to construe

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<sup>1</sup> See Bird & Bird submission to AIPPI and EPLAW dated August 5, 2013.

the wording in that a patent proprietor can only apply for an opt-out as long as no such action has been filed with the court. This latter interpretation appears more in line with the UPCA's focus on registration of instead of application for an opt-out. The wording of Article 83 (3) UPCA is likely to have the consequence that in a constellation like the above the action filed before the court after the application will have to be heard by the UPC and that the opt-out application will have to result in registration and only subsequent actions to be barred from the court. The UPC will decide this issue, i.e. whether there is a conflict between UPCA and the Rules as foreseen in Rule 1.1, in the end.

The above problem is even more apparent in the first days of entry into force. Rule 5.9 addresses the problem:

*An Application to opt out may be lodged with the European Patent Office after a date to be announced by the European Patent Office and before the coming into effect of the Agreement. The Application shall be accompanied by the fixed fee provided for in Rule 5.3 and shall otherwise comply with any instructions for lodging the Application issued by the European Patent Office. At the date of entry into force of the Agreement in accordance with Article 59 of the Agreement the European Patent Office will transfer details of all such Applications and all such fees to the Registrar and the Applications shall be treated as entered on the register and effective from the said date of entry into force of the Agreement.*

Here, the opt-out application shall prevail over any court action. Rule 5.9 appears to be in conflict with many provisions:

- Rule 5.9 tries to rectify the mischief of Article 83 (3) UPCA by stating that receipt of the application for an opt-out via the EPO shall be deemed as a registration. This is turning the wording of the UPCA into its opposite and overstressing the competence reserved for the Rules of Procedure.
- Furthermore, Rule 5.9 does not give deference to the fact that the Rules will only come into effect, (i) once the UPCA has come into effect and (ii) the Rules of Procedure have been passed by the administrative committee and (iii) a fee for opt-out has been determined by the UPCA.
- Rule 5.9 provides for an additional duty of the EPO, a duty which is not listed in the Regulation 1257/2012 on the creation of unitary patent protection. Indeed the opt-out does not even relate to the unitary patent.
- Finally, opt-out applications to the EPO will in many cases be signed by representatives being entitled to act – only – before the EPO. However, an opt-out application to the court may only be signed by a representative admitted before the UPC.

**Note: The concept of the sunrise period is probably not in line with the UPCA.**

Nonetheless the practical impact of Rule 5.9 should not be underestimated. There will be few parties proceeding before the UPC with arguing that the opt-out application has been invalid. Furthermore, once registration has taken place without an action having been filed in the meantime will in many cases heal a deficiency.

## **2.4 Duration of opt-out**

The opt-out application will result in a complete ousting of the jurisdiction of the UPC and it will be in place for the life of the relevant patent/application, irrespective how long the transitional period will last.

A proprietor or proprietors may, however, withdraw the opt-out in respect of the patent(s) or application(s). Again, the formalities according to Rule 5.2 must be observed. Again, the withdrawal shall be regarded as effective from the date of entry in the register.

Once an application to withdraw has been entered into the register no second application to opt out can be successfully lodged.

## **3. When to opt-out - Strategy**

The new system provides for a multitude of possibilities. As for new applications, an owner can decide to file a European Patent Application or decide for national applications. A European Patent application provides the – later – options of branching off utility patents, filing divisional, validation as Unitary Patent and validation as "traditional" European patent. Such "traditional" European patent again offers the opportunity to opt-out.

As for granted European patents there is – only – the decision to make whether or not to opt-out. The decision has to be made for each European patent (or European patent application) at a time. Many may therefore be tempted to file opt-out application for all its European patents and European patent applications. This will not be cheap in light of the fee to be paid. A general decision is therefore not justified. This is even more true in light of the fact that some years access to

the UPC might be preferred and a withdrawal of an opt-out is only possible as long as no national proceeding has started.

The larger a portfolio the less secure a patent owner will be. Trying to facilitate the decision making process there are two criteria, namely the importance of the patent or application and its strength. The more a patent owner believes that his or her patent will survive a challenge, the more reasonable it is to maintain at least the possibility to use the new system and therefore not to opt-out. The other way round a high importance of the patent suggest to opt-out in order to not endanger the patent to be invalidated in one proceeding in all of Europe.

This results in the following:

- No money should be spent for an application or a patent which is not important and even strong. An opt-out is not appropriate.
- The same is true for an unimportant and weak patent. One should anyhow consider to let it lapse.
- For an important and strong patent a patent owner might consider an opt-out. The strength of the patent, however, will usually lead to not opt-out. It does not appear to be necessary because it will not be invalidated by the UPC. During the transitional period the owner can chose whether to file infringement suits with the UPC or in a national court. If there is an opt-out declaration competitors might even file a national revocation proceeding in order to exclude the possibility to withdraw the opt-out and proceed against the competitor before the UPC.
- An important but weak patent, however, is in danger as of the entry into force of the new system. Currently, there is still the possibility to defend it on a country by country basis and maintain it in some countries. With the UPC in place a revocation for all of Europe is possible and likely. Here, an opt-out is sensible.

Of course there are more options to play with. In the context of deciding on an opt-out divisional and utility models have to be considered. With a utility model or a divisional patent one might even enjoy having the option to proceed in whatever system depending on the quality of the UPC. Sufficient funds are necessary.

**Note: Opt-out if you have a weak but important patent. For the rest, stay.**

In any case the decision has to be made now – and not once a proceeding is already filed.