

## Preparing for change:

# The UPC's Impact on Licences, Ownership and SPCs

In amongst the general discussion about the unitary patent and UPC, there are a number of important but easily overlooked issues. In this the third briefing note of our series we look at the issues of licences, ownership and SPCs in the context of UPs and the UPC. As part of your plan to be UPC Ready, the impact on each of these should be carefully considered. Taking action now will allow you to make effective preparations for the start of the new system.

### The position of licensees

All licensees of European patents (EPs) will be affected by the introduction of the UPC. If no action is taken, all existing EPs will be subject to the jurisdiction of the UPC so decisions need to be made as to whether it is appropriate to opt-out existing EPs from the jurisdiction of the new court. Unfortunately, licensees (even those who operate under an exclusive licence) will have no automatic right to be involved in the decision of whether an EP they have licenced should be opted out. Absent any agreement to the contrary, the patent owner could therefore make its own decision on exercising the opt-out without reference to its licensee(s).

So, what can licensees do to protect their position? Early dialogue with the patent owner is key. The licensee should decide upon its preferred opt-out strategy and communicate this to the patent owner. There will be a short period of time to opt-out EPs before the UPC comes into existence (sunrise period) and this period could begin as soon as late 2016 so action needs to be taken now. If EPs are not opted out during the sunrise period, a third party could initiate a central revocation action as soon as the UPC comes into existence, effectively trapping the patent in the UPC system.

In many cases the interests of the licensee and patent owner will be aligned. However there may be disagreement; perhaps a genuine difference of opinion or even an opportunistic attempt by the patent owner to renegotiate the terms of the licence. The patent owner may also find itself in a difficult position if it has multiple licensees who have different views as to whether the licensed patents should be opted out. In the event of disagreement it is unlikely that existing licence agreements will help to resolve the issue, although a detailed review of licence terms would still be worthwhile.



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## Impact on other agreements

Don't forget that licences of patents can also arise from many other types of agreements, such as material transfer agreements, research and contract services agreements, manufacturing agreements or development and commercialisation agreements. It is unlikely that such agreements will already contain specific clauses which deal with the opt-out issue or future validation of EPs as UPs. Your UPC Ready strategy should include a review of such agreements to see if any action needs to be taken now.

## New IP agreements

Any new agreements containing clauses which regulate the ownership and use of patents in Europe need to take into account the impact of the UPC. In particular the following issues should be addressed:

- If multiple parties are involved, what process will be used for agreeing whether to opt out EP patent(s) from the jurisdiction of the UPC in a timely manner?
- Who will take the decision whether to litigate before the national courts or before the UPC and who will be responsible for leading and funding such litigation?
- Once the transitional period (at least 7 years) ends there will be no ability to withdraw an opt-out. Who will decide whether the opt-out should be withdrawn before the end of the transitional period?
- If there is an actual or threatened infringement of the patent, who will make the decision on whether to withdraw (or not) any opt-out in order to centrally enforce the patent before the UPC?
- If there are any EP applications covered by the agreement should these be opted out now or at grant or should they remain subject to the jurisdiction of the UPC?
- Will unitary protection be obtained for any future granted patents or should the traditional EP route be followed?

It is also important to consider the above issues during any due diligence assessment of IP assets that are being evaluated for in-licensing or acquisition. The due diligence process and subsequent contract negotiation often present a good opportunity to ensure any opt-out issues are resolved and future difficulties are avoided.

## Who is the owner?

The opt-out must be exercised by the "proprietor(s)" of an EP. Identifying the proprietor may not be straightforward, particularly for IP arising from third party collaborations or where complex intra-group arrangements exist, for example where different local entities have ownership rights in particular territories. Be aware that the entity listed as the proprietor at the relevant patent office may not be entitled to exercise the opt-out. It is quite common, often to save costs, for a transfer of a patent not to be recorded at the relevant patent office. To reflect this, the UPC Rules of Procedure state that the entity that must exercise an opt-out is the entity "entitled" to be recorded as the proprietor. Therefore if there has been an assignment of rights that has not been recorded, care must be taken to make sure that any opt-out is effective. An opt-out will only be effective from the date it has been validly registered, so any errors could invalidate the opt-out and open up the risk of litigation before the UPC.

## Joint Ownership / Co-Ownership of EPs

Patents under joint ownership or co-ownership (i.e., where different validations are owned by different owners) create their own issues in relation to the UPC. The immediate concern is exercising the opt-out. Absent any agreement to the contrary, if an EP is under joint or co-ownership it can only be opted out of the jurisdiction of the UPC if all the owners of the EP agree to the opt-out. If there is no agreement then the opt-out cannot be exercised validly.



As with licensing situations, it is unlikely that any existing agreement between owners of an EP (even if such an agreement exists) will deal with the issue of exercising the opt-out. However, if there is an agreement, a detailed review of it should be carried out to see if there are any clauses which may help clarify responsibilities. In the absence of any helpful terms, it would be worth considering opening a dialogue as soon as possible with the party with whom you have jointly owned or co-owned EPs.

In terms of future proofing your portfolio, for any pending EP applications in joint names, consideration should be given as to the order in which the joint applicants are listed. If the application, once granted, is litigated as a UP, then the order of applicants will dictate the law applied by the court in relation to certain issues. In addition, any new joint ownership agreements which relate to EPs should have provisions which deal with the issue of exercising the opt-out. Further, all parties should be made aware that if an EP is not opted-out any revocation action before the UPC would be brought against all owners of the EP. Co-owners need to consider how the situation would be dealt with particularly in relation to costs.

## SPCs

Supplementary Protection Certificates (SPCs) can extend patent protection for biopharmaceutical and agrochemical products and are granted in order to compensate the innovator for loss of effective patent term as a result of the delay in obtaining regulatory marketing authorisation. Whilst the number of SPCs granted across Europe is relatively low, these rights can be extremely valuable to innovators. At present the interplay between the UPC and SPCs is still a work in progress. It is clear that during the transitional period (at least 7 years) SPCs can be opted-out of the jurisdiction of the UPC. Indeed an application to opt-out a European patent will extend to any SPC based on that European patent and this includes SPCs which are granted after lodging the application to opt out the European patent. Extra care needs to be taken when exercising the opt-out as the proprietors of the underlying EP need to exercise the opt-out along with the holders of the SPC, even if the EP has expired.

If an applicant decides to validate an EP as a UP, the exact procedure for obtaining an SPC based on a UP is as yet not clear. It is likely that at the very least a UP will be able to serve as the basis for national SPCs granted by the national patent offices. Certain industry bodies are pushing for a unitary SPC but this will require further agreements between member states and it is unlikely that an agreement will be reached before the UPC system goes live. Another aspect that will also need consideration will be the possibility for obtaining paediatric extensions on SPCs based on a UP.

If you would like to discuss strategy development or portfolio review, HGF can provide you with assistance and guidance on formulating and implementing your company's UPC strategy.

Should you have any further questions about the UPC's impact on licences, ownership and SPCs, please contact our dedicated UPC team on [UPCReady@hgf.com](mailto:UPCReady@hgf.com) or contact your usual attorney to discuss these issues further.

## Disclaimer

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