

EPLAW

European patent lawyers association

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EPLAW comments
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Introduction

EPLAW is the association of European lawyers specialising in patent matters. Its members represent parties in patent litigation before national courts in Europe and before the EPO. EPLAW is actively engaged in shaping the Rules of Procedure of the future Unified Patent Court (UPC) and in training future UPC judges.

Although our members represent multinational companies, SMEs and individuals from all over the world in patent litigation, as European lawyers we also pay particular attention to how the UPC may impact European innovators, start-ups and small innovative companies which may be considered the engine of future European industry and economic development. In this respect we should not lose sight of the very different financial resources and opportunities of European companies seated in the more developed western countries and the modestly innovative eastern countries of the EU.

Basic principle

When it comes to the UPC, we are all very much aware that a cheaper patent system may add economic value for innovators, while possible litigation may discourage smaller companies from entering the market even if their product is not obviously infringing. If a product is obviously not infringing and a company is nonetheless sued, the system should provide an affordable defence and full cost reimbursement rather than trying to deter the patent owner from suing with higher fees.

It is also our firm belief that the rules on the payment of Court fees should be clear and indisputable for all parties irrespective of how many parties are involved on one or either side of the litigation. Furthermore, these rules should also cover the possible recovery of costs in the event of multiple patent litigation procedures.

Basic references

The basic rules on costs of Court fees and recoverable costs are principally governed by the following Articles of the UPC Agreement.

From the preamble of the UPC:

“CONSIDERING that the fragmented market for patents and the significant variations between national court systems are detrimental for innovation, in particular for small and medium-sized enterprises which have difficulties to enforce their patents and to defend themselves against unfounded claims and claims relating to patents which should be revoked; [...]

Art. 36 (3) “Court fees shall be fixed by the Administrative Committee. They shall consist of a fixed fee, combined with a value-based fee above a pre-defined ceiling. The Court fees shall be fixed at such a level as to ensure a right balance between the principle of fair access to justice, in particular for small and medium-sized enterprises, micro-entities, natural persons, non-profit organisations, universities and public research organisations and an adequate contribution of the parties for the costs incurred by the Court, recognising the economic benefits to the parties involved, and the objective of a

self-financing Court with balanced finances. The level of the Court fees shall be reviewed periodically by the Administrative Committee. Targeted support measures for small and medium-sized enterprises and micro-entities may be considered.”

Art. 37 (4) “After the end of the initial transitional period of seven years, by which the Court is expected to have become self-financing, should contributions by the Contracting Member States become necessary, they shall be determined in accordance with the scale for the distribution of annual renewal fees for European patents with unitary effect applicable at the time the contribution becomes necessary.”

Comments on the draft rules

General comments:

On the basis of the rules cited above we are well aware that the UPC Court fee system shall be based on a combination of a fixed fee and a value-based fee. However, presently in Europe a value-based fee is primarily only connected to expressly specified, pecuniary damage claims and not to infringement and revocation actions, the exception here being Germany where value-based fees are charged for both infringement and invalidity proceedings. Consequently, as part of the present consultation procedure, every stakeholder and commentator should have had (a draft of) the guidelines on assessment of value for value-based fees mentioned in the Consultation Document. **Without such guidelines it is impossible to envisage and comment as to whether the value-based fee structure will result in a predictable and fair outcome.** The clarity of these guidelines will be important to avoid satellite disputes arising relating to the value of cases as can happen in those jurisdictions which currently operate value-based court fees. The valuation of disputes must not provide a tactical opportunity for litigants.

Moreover, we must be mindful of the facts that no EU member state has a court system which is either self-financing or aims to be self-financed, while the proposed Court fees for the UPC are set to enable the UPC to become self-financing at the latest by the time the initial transitional period has elapsed. Details of neither the budget for the UPC nor the financial assumptions with regard to the Court’s income, which would underpin the level of the Court fees proposed, have been published, which makes it very hard for users to comment on the level of said fees in light of the Court’s interest.

Articles 36 and 37 of the Agreement stipulate that the UPC’s overall income from Court fees must be sufficient to make the Court self-financing, at least by the end of the initial transitional period. The budget of the Court is a theoretical, indisputable amount, which we cannot determine in these comments. Therefore, the basic issue at hand is how much to collect and from whom, or for the sake of simplicity, how much to collect from such entities who have less financial means at their disposal, for example, certain SMEs, and how much to collect from larger entities.

Furthermore, we must not only consider Court fees but also other reimbursable costs, such as the costs of experts, witnesses and translations, as well as reimbursable attorney fees, when looking at the financial burden entities have to bear with respect to potential litigation. A standard patent litigation claim, ie. infringement suit or counterclaim for

revocation and appeal, for any entity under the proposal (fixed fee only) will incur Court fees of some €27,000.

The rules do also need to make explicit reference to such cases where more than one party is involved in one part of the litigation procedure or more than one patent is litigated. It should be specified clearly and unambiguously whether in such cases the fixed fee and the value-based fee apply to the particular part of the litigation procedure and therefore should be paid once, or apply to the counter-parties and/or patents involved in the case and therefore should be paid by each counter-party and/or patent. This is similarly the case with respect to the ceiling on recoverable costs.

The decision of the CJEU in regard to case C75/15 may be expected in 2017. On the off-chance that this is still timely, this decision should obviously be considered in formulating the final version of these rules, especially relating to the ceiling on recoverable costs, as this may well interpret the relevant part of the Enforcement Directive, and especially the term “reasonable and proportionate legal costs and other expenses”.

Specific comments:

(following the structure of the Explanatory Notes of the Proposal)

Ad point A of Explanatory notes to Rule 370 of the Rules of Procedure Alternative proposals (ad. Rule 370.6.)

It is our firm belief that the reimbursement of fixed and value-based fees should be an element of the Court fee structure at the UPC. It is obvious and should be retained that in the event of withdrawal or settlement the Court incurs fewer costs: we therefore agree that any such savings should be passed on to the parties involved.

However, this proposal is not an alternative for SMEs to the implementation of Article 36 (3). Furthermore, in our view the Agreement does not generally seek to privilege SMEs and universities but principally aims to ensure fair access to justice for everyone, particularly for every European company which may find itself involved or affected by patent litigation. In addition to ensuring that SMEs interests are protected and that only those entities which are actually in need may take advantage of discount or reimbursement to be made available, we must be especially mindful of the fact that it is not uncommon for patents to be held by Non-Practising Entities (NPEs) set up specifically to monetise patents and not to manufacture any product, by small companies within large multinational group, or by wealthy universities. We must ensure we do not limit Court Fees for such entities merely on the basis they should be considered SME, or universities.

We feel that in the scope of fair access to justice the reimbursement of Court fees and also the non-payment or reduced payment of other types of costs, for example, costs of interpreters and translators, and a limited ceiling on the payment of other types of costs should be incorporated into the rules as they presently stand (for example, by extending Rule 370.7. to include other types of costs, see later).

As such, we do not agree with any proposal which would provide any exemption or reimbursement automatically, without taking the exact and actual economic

circumstances of a given entity into consideration. We are of the opinion that the reimbursement and/or an exemption of payment of certain types of fees and costs should be based on the examination of the Court and should consider the real economic circumstances of a given party; these should not be linked to specific types of legal entity. We deal with this issue further in connection with the amendment of proposed Rule 370.7 below, where we suggest making a reduced payment and exemption facility for Court fees and recoverable costs available for such companies whose **“actual and real economic operation is threatened by payment of Court fees”**.

Accordingly we can support the Alternative 1 proposal but only with an amended Rule 370.7 as set out in the following point below.

***Ad point A/3 of Explanatory notes Fee reduction
Amendment of Rule 370.7.***

In our view this rule is essential with respect to fair access to justice. A rule where a discount of any kind is based on the economic circumstances of a given entity sends a far better message to every user than an exemption on the basis of the particular legal form of the entity.

We would, however, propose amending this rule as follows:

Firstly, in our interpretation of the rule as it presently stands, “threatens the economic existence of a party” would mean that only those companies which would be close to bankruptcy should they pay the fixed fee and/or the value-based fee may apply for this reduced fee facility. We should therefore extend this rule to every party whose **“actual and real economic operation is threatened by payment of the Court fees”**. In such a case the Court would have slightly greater leeway to determine the scale of reduced fees for such companies who do conduct real economic operation and can hardly manage to pay €11,000 and/or €20,000. It is important to note at this point that, for example, in Hungary a limited liability company may be established with approximately €10,000, while the special income tax construction for small enterprises is limited to such entities whose annual turnover does not exceed €1.6million. Of course, any such request should be supported by reasonable and plausible evidence from the applicant.

Secondly, the application should be filed, at least in the event of lodging a counter-claim for revocation, at the time of lodging the claim, without the actual payment of the fixed fee for counter-claim. Obviously, for some small companies just starting their operation the payment of €11,000 may also threaten their operation and even their economic existence. Without such a facility the system may be open to abuse on the part of patent owners who with the mere threat of patent proceedings may exclude potential competitors, who may well intend to set up only in a small part of the European Union, from the market. Naturally, the fixed fee should be paid if the application is partly or entirely rejected by the Court.

Thirdly, for the proper administration of justice and with particular regard to rendering proportionate contribution to the operation of the Court, we would propose incorporating into the rules that the Court may permit a party not to pay or reimburse only a part of the fixed fee. According to the present wording it is not clear whether the fixed fee can only be partially reimbursed.

Fourthly, such application for reduced payment of fees should be extended beyond simply Court fees to cover certain types of costs which should be advanced by the given party (see Rule 180 of the 16th draft of Rules of Procedure) or which arise from the international composition of the panels, especially the costs of interpreters and translations.

Fifthly, we are also of the opinion that a reduction in recoverable costs should also be made available to such companies, provided they are not acting in bad faith in the litigation.

Ad point B/II of Explanatory notes Level of Fees

a) Fees of Appeal

As regards the level of the fixed fees, we note that the fee for filing an appeal would be €16,000 compared to €11,000 for issuing a claim. The proposed appeal fee is excessive in comparison and could have the effect of denying justice to litigants, as well as restricting the number of cases which go to appeal. Particularly in the early days of the Court the development of case law of the Court of Appeal should not be financially restricted and we would as such suggest reducing the fixed fees for Appeal.

b) Other Fixed fees

We consider the level of fixed fees in general to be modest and acceptable. However, as we set out above we do believe financially modest companies should be in a position to obtain reductions, exemption and reimbursement possibilities on the basis of their real financial and economic situation, and not according to the type of their particular legal entity.

In our view the opt-out fee is also acceptable, especially in light of the fact that the fee for registering a licence agreement at the EPO is €100.

c). Fees on damage claims

In the present proposal the fixed fee for a damage claim is significantly reduced, while the fixed fee for appeal in the event of a damage claim is charged at the same rate as for every action, and in this instance the value-based fee should also be paid.

We feel the fixed fee for appeal in the event of a damage claim should also be reduced, for example, to €5,000, while the value-based fee should only be paid over the amount which has already been paid in the infringement procedure. This solution would avoid the value-based fee needing to be paid twice in any given action.

d) Fees of revocation actions

We would also highlight the fact that according to Rule 57 of the latest version of the Rules of Procedure a value-based fee should be paid for a revocation action as well, which is not in line with the present proposal.

To some of our members it is fundamental that the defendant should not be required to pay any fee for a counterclaim for revocation, which is his rightful defence of the infringement claim. However, as a compromise, **in the event of a revocation action filed as counter-claim or as a separate claim the fixed fee could be reduced, for example, to €11,000 and or €15,000 without any value-based fee.**

Ad point C of Explanatory notes. Amendment of Ceiling on Recoverable costs

In our view, the ceiling on recoverable costs should cover not only the costs of the representatives but should be extended to include other types of costs arising from the international composition of the panels, especially the costs of interpreters and translations. We feel it is patently unfair especially for financially handicapped and/or small market entities that their potential risk is increased by such costs which only arise from the international nature of the UPC.

The amounts set forth in the ceiling table are generally acceptable, but we do need to clarify whether these are net or gross figures, ie. whether VAT is included in these costs, and none of the ceiling amounts should exceed 15% of the value of any given action - in this respect if the value of the action is up to €250,000 the ceiling should be set at €37,500. All the other caps meet this criterion.

Furthermore, we have noted that the ceiling is only one aspect of the recoverable costs. The main criterion is that only “reasonable and proportionate legal costs and other expenses” should be recovered (see Art. 69 of UPCA). The Rules do therefore need to provide guidance with respect to the interpretation of reasonable and proportionate costs.

Ad point D of Explanatory notes - modification of Rule 370.5

That the value-based fee is correctly determined is a crucial element of the future system, especially in such litigation procedures where one party is a financially modest local company and the other a big multinational. To illustrate, let us imagine a major multinational sends a cease and desist letter to a small Estonian research company which does not operate outside the Estonian market and does not possess the substantial manufacturing resources required to export their products to the whole European Union. The potential risk for the multinational company may extend to its entire turnover, let's say more than €100million in the European Union if we are only thinking in terms of the objective interest of the filing party. Economically speaking though only the very modest Estonian market, which amounts to less than €100,000, is impacted by the Estonian company, and as such it would be unfair and strictly against the principle of fair access to justice if the value of the procedure should be determined on the basis of the turnover of the filing parties. The Estonian research company would not have the financial means to bear the risk of potentially losing a case where the ceiling of the recoverable costs is in excess of €3million. A simple cease and desist letter may be sufficient for it to abandon

its operation and lay off its entire workforce, even if the patent owner has a very weak patent.

German practice links the value of the case to the interest of the plaintiff, which may be related to the expected turnover the plaintiff generates with their own product competing against the allegedly infringing product. Irrespective of how much deference the UPC will give to turnover, if the Court fees for infringement action are based on a multinational company's turnover the value-based fee will be high and will have a substantial impact on the cost risk of the entire litigation. An SME or an Innovative Start-Up Company will have to give this serious thought when deciding to abandon its operation or to litigate.

The Consultation Paper limits this burden by providing a cap for a counter revocation action. According to some of our members, that the defendant should not be required to pay any fee for a counterclaim for revocation, which is his rightful defence of the infringement claim, is fundamental.

In our view, however, this is not enough. We should avoid assigning too high a value to a case by giving significant deference to the actual or assumed turnover of a local defendant and/or the actual turnover potential of the local market. If this is apparently low, the value of the action should be low as well.

The value-based fee should in principle be proportionate to the size of the market in which the defendant is actually operating or has any activity, and not only reflect the interest of the filing party. Consequently, we cannot support the present wording of Rule 370.5.

This should also be true for such cases where a financially modest local company starts an action against a big multinational.

So, the whole value-based fee structure can only be correct and work in practice for SMEs and local Innovative Start-Up Companies if the value of the action is appropriately determined. The draft in its present form does not ensure this and rather leaves it to the UPC and to the guidelines to handle matters appropriately. As observed above, this is undesirable as it may give rise to uncertainty.

We do really need to know what these guidelines will contain. Without these, any comments on the Consultation Paper will by definition be vague. If the guidelines conclude that a standard SME vs. SME litigation has a value of €5million or the turnover of the plaintiff in a standard large entity vs. SME will have significant impact, all comments are moot.

To our mind the guidelines should in the very least conclude that a small entity may initiate a litigation procedure against another small entity in the context of a small local market without a value-based fee being charged and that in litigation against local small entities the value should be proportional to that of the said small entities' feasible income. If under this premise the UPC is not sufficiently well financed, value-based fees need to be revised.

In addition to ensuring that SMEs interests are protected, the system should limit the risk of abuse, thus guidance should be specific enough to ensure, for example, that

NPEs, small IP holding companies of a multinational group and/or wealthy universities are not considered SMEs for cost reduction purposes.

Other issue:

Timing of payment

The rules in this regard are basically acceptable as they currently stand with the fixed fee being paid at the time of lodging and the value-based fee once the value of the case has been assessed by the Court.

However, if our recommendation for a reduced (or even exempted) fixed fee is acceptable for particular cases, then Rule 371 should also be revised to take into account such cases, ie. the payment of the fixed fee should not be made before such a request for reduction has been decided by the Court. As such, in the event of non-payment of fixed fee the lodged claim cannot be rejected until the decision on the said application. Such a rule should be incorporated at least with respect to the counter-claim of revocation, as a part of the support for SMEs, especially given that under the Rules of Procedure as they currently stand, an invalidity defence is not acceptable without a counter-claim for revocation being lodged. Thus, a start-up or a financially modest entrepreneur has little realistic chance of defending themselves against a weak and questionable patent.