

PUBLIC CONSULTATION ON THE RULES ON THE UNIFIED PATENT COURT FEES AND RECOVERABLE COSTS

Comments of the UPC Industry Coalition

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1.0 INTRODUCTION

The UPC Industry Coalition ("**the Coalition**"), a group of global innovators and users of the European patent system, is grateful for this opportunity to provide input on the new Unified Patent Court and offers the following comments and recommendations on the draft proposal on court fees and recoverable costs.

We are mindful that the objective of the Preparatory Committee is to create a mechanism by which the court will be self-funded through fees paid by the parties and to encourage parties to invoke the mechanisms of the court only to the extent necessary (thereby encouraging early settlement). The Coalition appreciates this practical approach, but also seeks through these comments to reduce the potential for fee structures to incentivize abusive litigation tactics—a hallmark of which is the leveraging of litigation costs to extort inappropriate, and non-merits-based, settlements from defendants. Because of these concerns, the Coalition prefers Alternative 1, which focuses on parties' actions, over Alternative 2, which focuses on parties' corporate structures and characteristics. The second approach more readily invites creative and opportunistic re-structuring of an entity to avoid paying its reasonable share of the fees for the court, as some wealthy institutions have done in the U.S.

The Coalition offers detailed comments below to address the reimbursement structure for withdrawal and settlement, the exceptions for entities that assert economic inability to pay their fees, the relief from the obligation to pay value-based fees for SMEOs, the level of court fees, the scale of ceilings for recoverable costs, and the manner of setting the value of an action. Where appropriate textual changes also are suggested. The Coalition also recommends adopting Alternative 1, with the below recommended changes, and not adopting Alternative 2. As mentioned above, Alternative 2 involves practical difficulties of classifying and means-testing entities, and there is a risk that patent licensing/assertion entities (i.e. entities whose primary business is the licensing and/or asserting of patents) take advantage of carve-outs intended to benefit SMEOs.

2.0 REIMBURSEMENT FOR HAVING A SINGLE JUDGE AND/OR CASE SETTLEMENT OR EARLY WITHDRAWAL (ALTERNATIVE 1)

2.1 Overview

With respect to paragraph 6 (b) and (c) in Alternative 1 on early withdrawal and settlement, the Coalition believes there is no reason to provide a financial incentive for parties to settle beyond the avoidance of fees that have not yet fallen due. Under rule 371, the value-based fee is payable after service of the order determining the value of the dispute and may not have been paid even if the case is withdrawn during the interim procedure. Hence, there already is a built-in incentive to settle or withdraw before the value-based fee is determined and paid.

In general, the Coalition believes that a system that financially incentivizes settlements, or settlements styled as withdrawals, by reimbursing court fees increases the risk of unwarranted settlements based on litigation cost savings. Indeed, one of the levers of abuse in the U.S. system involves the ability of licensing/assertion entities to extort early settlements based on litigation cost-savings where such settlements are not tied to the merits of the case. It is better to encourage the parties to pursue a merits-based outcome, rather than encouraging them to settle without regard to the merits of the claim because of the financial benefit of the reimbursement of court fees.

2.2 Suggested Amendments to Alternative 1 (Paragraph 6)

Paragraphs 6 (b), (c), (d) and (e) should be deleted in their entirety.

3.0 REIMBURSEMENTS IF FEES THREATEN THE ECONOMIC EXISTENCE OF A PARTY (ALTERNATIVES 1 AND 2)

Both Alternatives 1 and 2 (in respective paragraphs 7) provide that if the amount of fees payable would “threaten the economic existence of a party”, they may be relieved of the obligation of paying those fees.

The Coalition is concerned that these provisions could be improperly used by licensing/assertion entities to avoid court fees. Already today many these entities are structured without any capital precisely to avoid the risks of paying fees and litigation costs in the U.S. Where a party's business model is principally directed towards the assertion of patents, and the use of courts to do so, the Coalition believes that the court fees ought to be payable in full. No relief should be granted to allow licensing/assertion entities to assert patents if they are unable to pay the Court fees, even if payment of the fees may threaten their economic existence.

4.0 NO VALUE BASED FEE FOR SMEOs (ALTERNATIVE 2)

4.1 Overview

In Alternative 2, SMEOs are relieved of the obligation to pay value-based fees. A number of our Coalition members are SMEOs, and thus we certainly wish to ensure that the court is accessible to SMEOs. The Coalition believes that Alternative 1 accomplishes this objective without enabling licensing/assertion entities to disguise themselves as SMEOs and thus we prefer Alternative 1. If Alternative 2 is adopted, however, we recommend an additional change be made to prevent these entities from qualifying for the benefits intended for SMEOs. As we mentioned above, a party whose primary business model is the assertion of patents through the courts should not be insulated from paying court fees.

We note that the European Commission's user guide and model declaration in relation to the definition of SMEs provides:

One of the main objectives of the new definition is to ensure that support measures are granted only to those enterprises which genuinely need them. It is important to stress that the definition contains several anti-circumvention measures designed to reserve the advantages of SME support programmes to real SMEs. In this respect, the simplified approach of the present guide must not be used to justify artificial corporate architecture aimed at by-passing the definition.

Although this language is helpful, the Coalition recommends that licensing/assertion entities at least be expressly carved out of qualifying as SMEOs to avoid satellite disputes over whether they are being artificially structured to qualify. Thus, we suggest the additional change below to the text of Alternative 2, should Alternative 2 be retained.

Further, we also believe that some level of capped value-based fee is appropriate for true SMEOs and reflect that recommendation in proposed changes below.

4.2 Suggested Amendments to Alternative 2 (Paragraph 6)

In order to rectify the above-mentioned issues, we believe that the following wording should be added to paragraph 6:

6. The legal persons listed in Article 36 (3) of the Agreement (small and medium sized enterprises, micro-entities, non-profit organizations, universities and public research organizations) may apply for an exemption of value-based fees provided for in Rule 370.3 to have a valued based fee capped at 25,000€ (based on 4,000,000€ in value).

a) Scope (Definitions)

The categories of applicant eligible for the fee exemption are:

(i) 'small and medium-sized enterprise' to be understood as defined in Title I of Annex of the Recommendation of the European Commission n° 2003/361 of 6 May 2003 unless the applicant's primary business is the assertion of patents.

...

If the requirements referred to above have been met, the decision on such application shall be taken, by way of order, by the judge-rapporteur and exercising his discretion.

5.0 THE LEVEL OF THE COURT FEES

5.1 Overview

The Coalition generally supports the overall level of fees set out in the proposal. However, the Coalition notes that in comparison to the current fees in Germany, lower value cases are more expensive and higher value cases are less expensive (see table below and tipping point around 2.000.000€). The Coalition recommends raising the fees for higher value actions to deter unreasonable damages claims, on the assumption that the value of the action should serve as some guideline for the amount that is ultimately recoverable in the case. This change should not significantly change participation in the courts, particularly since the consultation document suggests that 90% of all actions will be beneath 4,000,000€.

Value of action	German Court Fee	UPC Court Fee
300.000€	7.400€	11.000€
2.000.000€	26.900€	26.000€
30.000.000€	329.000€	161.000€

With regard to revocation actions and counter-claims for revocation, the Coalition supports the current draft in that it does not assign a value-based fee for a revocation action or counter-claim of revocation. There is a strong public interest in nullifying invalid patents that would otherwise impede innovation and competition and harm public interests. Thus, the Court fees should not discourage parties from nullifying patents by imposing a value-based fee for revocations.

Additionally, a party should not be charged any fee for defending itself from a legal attack instigated by another party. Requiring a payment for a counterclaim of revocation may increase court funding, but it also is inconsistent with the view that invalid patents harm societies (by hampering innovation and competition without contributing anything of value) and that abusive litigation behaviors should be suppressed. Certainly those who invoke the authority—and thus the time and efforts—of the court ought to pay, but in the case of a counterclaim of revocation a defendant has not done so. They have not invoked the process of the court in the first instance, as would be the case if a party sought a revocation in an independent action, but are merely offering a defense to the infringement claims asserted against them by asserting that the patent should never have been granted by the government in the first place.

The fact that an invalidity defense necessitates a separate pleading is not within the defendant’s control and should not be charged against that defendant. Moreover, the revocation of an invalid patent is a societal good: There should be no extra barriers of cost to the defendants obliged to address such patents as they bring counterclaims of revocation that may well benefit society, innovation, and competition. Furthermore, the court should permit a defense of whatever type is most appropriate, and imposing fees on one who has not invoked the processes of the court in the first instance could be a real impediment to a defense, inconsistent with the basic notion of the court’s role in dispensing justice.

5.2 Suggested Amendments to the Levels of Court Fees

The Coalition recommends the following changes to the level of court fees:

II. Value-based fees

Value of action	Additional value-based fee
30.000.000€	150.000€ <u>318.000€</u>
More than 30.000.000€	220.000€ <u>388.000€</u>

III. Other procedures and actions

Procedures/actions	Fixed Fee
Counterclaim for revocation [R. 26]	same fee as the infringement action subject to a fee limit of 20.000€ <u>0€</u>

6.0 SCALE OF CEILINGS FOR RECOVERABLE COSTS

6.1 Overview

The Coalition supports the level of the recoverable costs, although the Coalition is concerned that the ceilings might be somewhat low in relation to actual litigation costs. It is recommended that the court be given discretion to award recoverable costs above the ceiling in appropriate cases. For example, higher recoverable costs might be appropriately awarded against a party that drove up litigation costs, for example, with excessive motion practice or claim amendments.

The Coalition also asks for clarification on application of ceilings in multi-party lawsuits. The explanatory note suggests that "*each ceiling for recoverable costs for representation is applicable per instance and party*". To guard against future arguments over related parties (e.g. a patentee and an exclusive licensee from the same group of companies not being two parties), we suggest that it is made clear that a party means a separately named party-in-suit.

Furthermore, it would be helpful to clarify that liability for recoverable court costs is proportionate to party's involvement in the case, such that if awarded against multiple parties, each party is liable only for its proportionate share. The Coalition also believes it necessary to specify that the caps are per patent, such that increasing the number of patents in a case increases the recoverable costs, in order not to encourage unreasonable expansion of cases to involve multiple unrelated patents or discourage consolidation of related actions concerning multiple patents where that makes sense.

In order to not unfairly burden either party in an infringement action where a counter-claim for revocation is added, it should be clarified that adding a counter-claim for revocation does not change the recoverable costs in the action.

6.2 Suggested Amendments to the Ceiling for Recoverable Costs

The Coalition recommends the following changes to the ceiling for recoverable costs:

Notwithstanding the recoverable cost ceilings, the court shall have discretion to award higher costs in exceptional circumstances, such as where a party's unreasonable litigation behaviour contributed to higher costs.

It is proposed that each ceiling for recoverable costs of representation is applicable per instance and party and per patent-in-suit. Each separately named party-in-suit shall be a separate party for purposes of assessing recoverable costs. Recoverable costs shall be awarded proportionately among named parties. Counter-claims for revocation do not increase the recoverable costs.

7.0 THE MANNER OF SETTING THE VALUE OF THE ACTION

7.1 Overview

The Coalition believes it would be helpful to clarify that the value in dispute is intended to estimate as closely as possible the actual value of the case. It is desirable to curb potential gamesmanship by the parties in setting the value in dispute either too high or too low for the wrongful purpose of either causing unfair burden or avoiding Court fees. Since it is difficult to estimate the value in dispute, and preferable to avoid extensive disclosure or disputes over the value at the outset of a case, it is suggested that the value in dispute, and associated Court fees, be adjustable throughout the case.

7.2 Suggested Amendments Regarding the Value of the Action

The Coalition recommends the following wording be added to the rules to clarify the manner of setting the value of the action:

The value of the action is intended to estimate the actual amount in dispute in the case, and therefore shall be subject to adjustment at any point by the court up until a hearing, or by either party up until 6 months after a decision on the merits becomes final and binding, if good cause is shown or changed circumstances warrant.

8.0 CONCLUSION

We urge the Preparatory Committee to continue its work to strike the right balance between giving patent holders the tools they need to enforce their rights while minimizing the opportunities for abuse. We appreciate that Europe has long worked towards a unified patent system, and we hope the proposed new system will be a significant step forward with the potential to benefit both the creators and consumers of innovative products and technologies.

While several of the undersigned organizations are also filing responses to this public consultation under the banners of other organizations and association (and in some cases under their own names), we are united in our approach to the UPC court fees. We believe that our proposed changes will allow operating companies to focus on innovation instead of litigation, thereby fostering economic growth and prosperity in Europe.

We look forward to working with the signatories of the Agreement and the Preparatory Committee to achieve mutually beneficial reforms that build confidence in the new unified system and drives European economic and technological growth.

Please do not hesitate to contact us directly should you have any questions.

APPENDIX A: LIST OF COALITION PARTICIPANTS

<p>Association Française des Éditeurs de Logiciels et Solutions Internet (AFDEL)</p>	
<p>Cisco Systems Inc.</p>	
<p>Dell Inc.</p>	
<p>European Semiconductor Industry Association (ESIA)</p>	
<p>Google Inc.</p>	
<p>Hewlett-Packard Company</p>	
<p>Huawei Technologies Duesseldorf GmbH</p>	
<p>Intel Corporation</p>	

Microsoft Corporation	
Syndicat de l'Industrie des Technologies de l'Information (SFIB)	