

Patent litigation in Europe: intermediate fee shifting and the UPC

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I. Introduction

When a patent owner files a lawsuit against another for a patent infringement, the question of costs arises. Patent litigation, in general, is prohibitively expensive. Patent suits are complex and associated with high litigation costs, ranging from technical experts engaged to gather proper and reliable evidence, test purchases potentially required for confirming an infringement or gathering evidence and any necessary translations. In addition, the cross-border nature of infringing activities means that experts from several jurisdictions may be required to assist.¹

Fee shifting refers to a situation where the unsuccessful party must pay the costs of the successful party.² When discussing the allocation of litigation costs, the American rule and the English rule are often mentioned. Under the American rule, each party is expected to take its own litigation costs whether it wins or loses the case. Under the English Rule, a party that loses a lawsuit is expected to bear its own litigation expenses and those of the winning party. As a result, this shifts the cost of litigation from the

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Abstract

- This writing explores the European understanding of fee shifting rules and how the unitary patent regime addresses fee shifting rules. In European jurisdictions, the IP Enforcement Directive has harmonized some parts of the remedies, even though they are mainly governed by national law. European jurisdictions often apply fee shifting rules, meaning that the losing party pays the winning parties' expenses and fees.
- However, in most cases, costs are not fully covered. Instead, European jurisdictions use intermediate fee shifting that allows the winning litigant to recover some, but not all, of its litigation expenses.
- The Unitary Patent Court (UPC) follows intermediate fee shifting. Hence, the UPC may lower or raise the ceiling of the recoverable costs or, upon request, wholly or partially reimburse expenses. For example, the recoverable cost might be disproportionate if the unsuccessful party is a small and medium size company. Like national rules, fee shifting in the unitary patent regime has limitations and discretionary elements, such as proportionality, equity, and partial success. In addition, the UPC will follow the case law of the Court of Justice of the European Union related to the interpretation of the IP Enforcement Directive.

winning party to the unsuccessful party, and thus, it is called fee shifting.³

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1 An Analysis of the Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights in the Member States SEC (2010) 1589 final, 24.

2 The term cost shifting is also used.

3 C Helmers et al. 'The Effect of Fee Shifting on Litigation: Evidence from a Policy Innovation in Intermediate Cost Shifting' (2021). Available at https://www.tse-fr.eu/sites/default/files/TSE/documents/doc/wp/2016/wp_tse_740.pdf (accessed 9 March 2023) 2.

European jurisdictions often apply fee shifting.⁴ The IP Enforcement Directive⁵ has harmonised some parts of the remedies, even though they are mainly governed by national law. As a general rule, under the unitary patent regime, the unsuccessful party must pay the successful party's legal costs and other expenses. However, there are differences in how the national courts reimburse costs. For example, in some jurisdictions, only the fees of the experts appointed by the court are reimbursed.⁶

Fee shifting may influence the incentives for litigating patents.⁷ However, allowing the retrieval of legal costs by the successful party in a judicial proceeding is controversial. For example, the imposition of the totality of legal expenses to the losing party could lead to disproportionate situations, mainly in cases where the agreed lawyer fees are higher than usual. In addition, small and medium size companies (SMEs) are more vulnerable litigation targets as they typically lack the financial resources to fight extended litigation battles.⁸ Hence, there is a need for balancing tools, in particular to safeguard the interests of SMEs.

This article explores the European understanding of fee shifting rules and how the unitary patent regime addresses fee shifting rules. In Europe, there are few theoretical or empirical studies exploring fee shifting. One interesting recent paper by Christian Helmers and others addresses litigation costs analysis between these two forms to include rules that allow the winning litigant to recover some, but not all, of its litigation expenses.⁹ The unitary patent regime applies this kind of intermediate regime that places a cap that varies with the case's value and establishes ceilings on recovery. Thus, it does not

automatically shift the costs to the losing party. In general, there is inherent uncertainty regarding the patent's value. In addition, patent cases have a high degree of complexity. Due to these reasons, it is rare to find an overall winner in patent cases. Thus, if a company wins the case overall, it may still have to pay costs for the issues not winning.¹⁰

This article is structured as follows. Section 2 analyses the effects of fee shifting, and Section 3, the costs of litigation in Europe. Section 4 evaluates the IP Enforcement Directive and understanding of the reasonability, proportionality and equity, and Section 5 fee shifting mechanisms in various European jurisdictions. Section 6 explores the unitary patent regime and its fee shifting rules. Section 7 draws conclusions, explains these functions and proposes how the Unitary Patent Court (UPC) potentially interprets fee shifting rules.

2. Effects of fee shifting

The identification of the impact of fee shifting is difficult. The literature on fee shifting lawsuits and their influence is rich and varying.¹¹ The theoretical literature often notes that awarding expenses to prevailing parties in civil litigation will have three primary outcomes. First, the courts settle fewer suits. Second, fee shifting will enhance the overall quality of the pool of lawsuits that are filed. Third, fee shifting increases the intensity of litigation in cases that are filed.¹²

The first outcome arises from asymmetric information. If the parties have diverging information about the likely outcome of a case, the fee shifting will tend to exaggerate their disagreement about the expected value of the case by adding litigation costs to the total amount at stake in the case. The wider this gap in asymmetric information, the less likely the parties are to reach a mutually agreeable settlement, increasing the duration and complexity of patent proceedings. Asymmetric information also leads to growth in the overall rate of litigation.¹³

Studies indicate that adopting fee shifting rules prevents abusive litigation, at least when the parties litigate objectively weak patents.¹⁴ Abusive litigation refers to situations when a party asserts an invalid patent or no patent

4 The literature on fee shifting and its impact is rich. For some overviews, see, inter alia, T D Rowe, 'Predicting the Effects of Attorney Fee Shifting' (1984) 47 *Law and Contemporary Problems* 139–171; K E Spier 'Litigation' in A M Polinsky and S Shavell (eds) *Handbook of Law and Economics* (North-Holland, 2007); T Eisenberg and G P Miller 'The English vs. American Rule on Attorney's Fees. An Empirical Study of Attorney Fee Clauses in Publicly Held Companies Contracts' NYU Law and Economics Research Paper No. 10–52. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1706054 (accessed 9 March 2023) 1–46; Helmers et al., *ibid* 7.

5 The Council Regulation (EC) No. 48/2001 of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L 157/45 (the IP Enforcement Directive).

6 Directive 2004/48/EC of the European Parliament and the Council (n 1).

7 F Fischmann, 'Patent litigation and Cost Shifting in Europe: Critical Appraisal and Proposal of Alternative Solutions' (2014) 10 *Journal of Intellectual Property Law & Practice* 98.

8 C Chien, 'Start-ups and Patent Trolls' (2012) *Santa Clara Law Digital Commons, Faculty Publications, Legal Studies Research Paper No. 9–12* 23–24; Clarivate 'NPE Litigation in the European Union. Facts and Figures' (2018) Available at <https://www.darts-ip.com/npe-litigation-in-the-european-union-facts-and-figures-2/> (accessed 9 March 2023) 10. SMEs are defined in the Commission Recommendation No. 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, [2003] OJ L 124/36.

9 Helmers et al. (n 4).

10 C Helmers and L McDonagh, 'Patent Litigation in England and Wales and the Issue-Based Approach to Costs' (2013) 32 *Civil Quarterly* 382.

11 For some overviews, see, inter alia, Rowe (n 4); Spier (n 4); Eisenberg and Miller (n 4); Helmers et al. (n 3).

12 Spier (n 4) 8; Helmers et al. (n 4).

13 C Chien et al. 'Enhanced Damages Litigation Cost Recovery, and Interest' in C B Biddle and others (eds) *Patent Remedies and Complex Products* (Cambridge University Press, 2019) 108; Helmers et al. (n 4) 2–3.

14 A M Polinsky and D L Rubinfeld, 'Does the English Rule Discourage Low-Probability-of-Prevailing Plaintiffs?' (1998) 27 *Journal of Legal Studies* 27; M Liang and B Berliner, 'Fee shifting in Patent Litigation' (2013) 18 *Virginia Journal of Law and Technology* 68; C Helmers and L McDonagh 'Trolls at the High Court Law' (2012) *Society and Economy*

is infringed. In addition, right holders may attempt to extend the scope of protection and weaken the competitor's market position. Furthermore, excessive remedies might lead to the abuse of enforcement.¹⁵ The risk of paying the defendant's costs is a threat for bringing weak claims, while the prospect of having one's costs covered by the defendant serves as a reward for bringing solid claims. However, fee shifting can have the opposite effect when the parties have asymmetric information. When the parties share relatively symmetric information, the fee shifting rule will tend to deter the filing of weak, low-probability-of-winning cases by reducing the plaintiff's total expected recovery. Similarly, under the symmetric information, the fee shifting rule will tend to encourage the filing of strong, high-probability-of-winning cases by increasing the plaintiff's expected total award.¹⁶

The prospect of fee shifting raises litigation's stakes, increasing the marginal benefit of additional spending. The literature predicts that the fee shifting will lead parties to litigate their cases more intensely. At the same time, the potential for a cost recovery award decreases the marginal cost of devoting additional resources to litigation by introducing some likelihood that one's opponent will eventually reimburse that extra cost. Thus, fee shifting rules incentivise litigants to focus on their main arguments while avoiding marginal issues that expedite the judicial process.¹⁷

It is difficult to compare the fee shifting rule and the American rule, and it is different from the intention of this writing. Overall, fee shifting ensures that the patent holder is compensated to some degree for what can be a considerable expense and helps to deter weak assertions of patent rights. However, there is some risk that fee shifting may lead risk-averse parties with strong claims or defences to abandon them, which might seem both socially inefficient and substantively unfair. Fee shifting can also require additional, costly adjudication to determine which fees and expenses are reasonable and thus compensable. Colleen V. Chien and others recommend that in countries where fee shifting is an established part

of the legal landscape, fee shifting rules should aim to compensate for the reasonable and proportionate costs incurred by the prevailing party in a meaningful manner unless equity prescribes otherwise, hence similar to the IP Enforcement Directive principles. However, it is impossible to draw firm conclusions about whether fee shifting is desirable, and the resolution of the issue may depend as much on cultural expectations as on theoretical or empirical economics.¹⁸

3. Costs of patent litigation

3.1 Litigation costs in European countries

The cost of litigation increases with the amount at stake and case's complexity. In Europe, patent litigation costs vary significantly across jurisdictions. In many countries, information on the individual costs of litigation is not published.

One study states that the private legal costs from a patent case filing to a first-instance judgment typically range between 50 000 euros (EUR) and 200 000 EUR in France and the Netherlands. The costs can be higher in complex and technical cases. In this study, the cost estimate is litigation for an average patent with a relatively small market value (with an amount in dispute of approximately 1 million EUR).¹⁹

In Germany, the costs are relatively similar. According to one estimate, the costs for a first-instance infringement action, including court fees and defending a parallel nullity action, range from about 75 700 EUR to 378 500 EUR.²⁰ Similarly, according to another estimate, the legal costs arising from a patent case filing to a judgement are between 50 000 EUR and 250 000 EUR in Germany.²¹ According to one study, the costs of taking a first-instance patent infringement case can vary between 40 000 EUR in a simple case and 100 000 EUR in a more complex case and, in a very technical case, they may be significantly more.²²

18 Chien et al. (n 13), 110.

19 B van Pottelsberghe de la Potterie 'Lost Property: The European Patent System and Why it Doesn't Work' (2009) Bruegel Blueprint Series. Available at <https://www.bruegel.org/2009/06/lost-property-the-european-patent-system-and-why-it-doesnt-work/> (accessed 7 March 2023) 14. See also J-G Monin and S Vilfeu 'Franc' in N Beckett and J Morton (eds) *International Patent Litigation Guide* (CMS, 2013) 41; W Hoomeman 'Netherlands' in N Beckett and J Morton (eds) *International Patent Litigation Guide* (CMS, 2013) 63.

20 Taylor Wessing 'German Patent Cases. Statistics' (2021) Available at <https://www.taylorwessing.com/en/insights-and-events/insights/2021/05/german-patent-cases-statistics> (accessed 8 March 2023).

21 van Pottelsberghe de la Potterie (n 19). See Bardehle sets the lower amount to €100 000. Bardehle 'Patent Infringement Proceedings' (2022). Available at <https://www.bardehle.com/en/ip-news-knowledge/firm-news/news-detail/patent-infringement-proceedings> (accessed 5 March 2022).

22 G Schoenen et al. 'Germany' in N Beckett and J Morton (eds) *International Patent Litigation Guide* (CMS, 2013) 47.

Working Papers. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154958 (accessed 3 March 2023).

- 15 A Kesselheim, 'Intellectual Property Policy in the Pharmaceutical Sciences: The Effect of Inappropriate Patent and Market Exclusivity Extensions on the Health Care System' (2007) 9 *APS Journal* E307–E308; R M Hilty and K C Lui, 'The Enforcement of Patents' (Aspen Publisher, 2011) 25; R M Hilty 'Legal Remedies Against Abuse, Misuse, and Other Forms of Inappropriate Conduct of IP Right Holders' in R M Hilty (ed) *Compulsory Licensing. Practical Experiences and Ways Forward* (Springer-Verlag, 2015) 381–382.
- 16 Polinsky and Rubinfeld (n 14), 534; Helmers and McDonagh (n 14), 2–3.
- 17 Helmers and McDonagh (n 14), 2–3. For an overview of the relevant empirical literature, see H M Kritzer, 'Lawyer Fees and Lawyer Behaviour in Litigation: What Does the Empirical Literature Really Say?' (2002) 80 *Texas Law Review*; Chien et al. (n 13).

In the UK, patent litigation costs vary between 150 000 EUR and 1 500 000 EUR.²³ According to another estimate, costs in patent litigation in the Patents Court (PC) can vary hugely.²⁴ Average costs in the PC are between 58 000 EUR and 580 000 EUR but may be much higher in complex cases.²⁵ According to one estimate, total PC trial costs can often range between 859 000 EUR and 1 719 000 EUR for each party.²⁶ The UK is not joining the unitary patent regime and is not an European Union (EU) Member State. However, the UK has relevance with an attractive European patent market and as a European Patent Convention member.

Patents might be challenged or enforced in proceedings in several different national courts, even if the relevant patents are essentially the same. The Brussels I Regulation and the Lugano Convention are applied to IP law cases in a European private international law context.²⁷ Often, a case is filed against an alleged infringer in the place where infringing goods are manufactured or in the country where the main distribution occurs. Then, the possibly granted injunction will have a maximum effect on the infringer's ability to make, distribute and sell the infringing goods.²⁸ When litigation occurs in several countries, national jurisprudential differences may significantly impact the course of a legal dispute. The various national courts may differ in their approaches to procedural and substantive matters.²⁹ When a company litigates in four countries simultaneously, naturally, the costs differ in each country. In this article, four countries are used mainly as an example (France, Germany, the Netherlands and the UK). In those countries, the cumulated costs vary from 310 000 EUR before the four courts

of first instance, up to 3.6 million EUR when considering the costs of the appeal at the second instance.

The court rulings might also differ when litigation takes place simultaneously in different countries.³⁰ For instance, the London High Court of Justice has ruled that Nokia did not infringe IPCOM's patents. However, the German Regional Court of LG Mannheim had previously ruled the opposite, even though the patents belong to the same family.³¹ A well-known classic case of divergent verdicts is the *Epilady* case. In *Epilady*, the patent holder was successful in Belgium, Germany, Italy, and the Netherlands, but not in Austria, France, and the UK. In *Securities System Inc. vs. ECB*, the German and Dutch courts upheld the patent, whereas it was revoked in France and the UK.³² However, this problem of divergent verdicts addresses mainly litigation between large entities. Smaller companies are not generally challenging patents in multiple countries simultaneously, due to the need for more financial resources and expertise.

3.2 Litigation costs under the UPC

The Administrative Committee for the UPC has adopted the Rules of Procedure of the Unified Patent Court and the Table of Court Fees. The UPC regime uses fixed and value-based fees. However, other expenses are also involved, such as lawyer's fees, experts and additional costs incurred in litigation.

A fixed fee depends on the respective lawsuit, and a value-based fee is calculated based on the litigation value. For actions related to infringement, the fixed fee is 11 000 EUR. Actions related to infringement mean infringement action, counterclaim for infringement, action for declaration of non-infringement and action for compensation for a license of rights.³³ A fixed fee is combined with a value-based fee when the case value matches or exceeds the set ceiling of 500 000 EUR.³⁴ The value-based fee ranges from 0 euros (up to and including 500 000 EUR value actions) to 325 000 EUR (for actions of more than 50 million EUR). There are altogether 18 categories for the value of an action.³⁵

23 van Pottelsberghe de la Potterie (n 20). See also L McDonagh *European Patent Litigation in the Shadow of the Unified Patent Court* (Edward Elgar Publishing 2016) 26.

24 The UK has three separate legal systems: England and Wales, Scotland and Northern Ireland. Regarding patent litigation, the enforcement system of England and Wales, based in London at the Patent High Court (PHC, part of the Chancery Division of the High Court of England and Wales) and the Intellectual Property Enterprise Court, is the most important, and for that reason, the one discussed here. See McDonagh, *ibid* 23, 18–19.

25 G Schoenen et al., (n 22), 98.

26 McDonagh (n 23), 26. See also Helmers and McDonagh (n 14), 10.

27 The Council Regulation (EC) No. 22/2001 of the European Parliament and of the Council of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, OJ L 12/1, replaced by the recast version Regulation (EU) No. 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters [2012] OJ L351/1 (Brussels I Regulation). The Lugano Convention of 16 September 1988 on jurisdiction and the enforcement of judgments in civil and commercial matters [1988] OJ L 339 (Lugano Convention) covers non-EU Member States such as Iceland, Liechtenstein, Norway and Switzerland and is also relevant in Denmark, where it preceded the application of the Brussels I Regulation.

28 McDonagh (n 23), 13.

29 K Cremers et al., 'Patent Litigation in Europe' (2013) 44 *Journal of Law and Economic* 5.

30 *ibid*.

31 (UK) *Nokia Oyj v IPCOM GmbH & Co Kg* (2013) EWHC 1158 (Ch); (DE) LG Mannheim, Urteil vom. 27 February 2009–7 0 94/08. Both cases concerned the European Patent EP1186189.

32 D Harhoff, 'Economic Cost-Benefit Analysis of a Unified and Integrated European Patent Litigation System' (2009) *Institute for Innovation Research, Technology Management and Entrepreneurship* 15. The *Epilady* concerned the European Patent EP010656. The *Securities System Inc. vs. ECB* involved the patent EP0455750.

33 Rule 370.2 and Table of Court Fees of the Rules of Procedure of the Unified Patent Court.

34 Rule 370.3 of the Rules of Procedure of the Unified Patent Court.

35 Rule 370.3 and Table of Court Fees of the Rules of Procedure of the Unified Patent Court.

There are also reductions in fees. Small enterprises and micro-enterprises³⁶ are entitled to pay only 60 per cent of these fees under specific criteria in the Rules of Procedure of the Unified Patent Court.³⁷ The small or micro-enterprise must present an affirmation of its status to obtain the fee reduction. The UPC can also order payment of the remainder of the regular fee plus an additional 50 per cent if the affirmation given by the applicant is found to be wholly or partially incorrect. On its own motion, the UPC can order payment of the remaining fee if the 60 per cent is manifestly disproportionate and unreasonable with respect to the applicant's financial capacity.³⁸

The UPC will reimburse fixed and value-based fees in the following circumstances. If a single judge hears the case, then the reimbursement is 25 per cent. If the parties decide to withdraw the case, then the reimbursement is 60, 40 or 20 per cent, depending on which stage it is withdrawn. If the parties settle the case, then the reimbursement is 60, 40 or 20 per cent, depending on which stage it is settled. The UPC has the discretion to reimburse fees where the amount payable threatens the economic existence of a party who is not a natural person and has presented reasonably available and plausible evidence to show that the amount of court fees threatens its economic existence.³⁹

The absence of parallel litigation and divergent verdicts makes the unitary patent regime more cost-efficient. Parallel litigation refers to cases involving the same patent and litigating parties in multiple jurisdictions. Litigation in the UPC prevents the need for parallel actions between the same parties in the national courts. Katrin Cremers and others have found that most European patents litigated in Germany, the UK, France or the Netherlands have also been validated in all four jurisdictions. The percentage of duplicated cases is low in Germany (2 per cent) and France (6 per cent). In the UK and the Netherlands, the percentage is higher, 26 per cent and 15 per cent, respectively. Only 8.4 per cent of all litigated European patents are subject to litigation in more than one country. However, these patents will likely be more important, complex and valuable for their holders.⁴⁰ Consequently, the potential legal and court costs must be weighed against the costs of litigating in multiple countries. Hence,

for European patent families covering several commercially significant countries, the benefit of enforcing and revoking in the UPC is clear.

3.3 Hidden costs of patent litigation

In addition to these costs, hidden costs or indirect costs must be anticipated and cannot necessarily be recovered. The hidden litigation costs can be significant and even higher than the direct costs.⁴¹ The hidden costs are the time spent internally in preparing the litigation, and the effect litigation has on customers and suppliers that may become reluctant to deal with firms involved in patent litigation. Thus, indirect effects include the effort exerted by legal, managerial, engineering and scientific personnel inside the firm and other business disruption costs, such as loss of goodwill or market share and disruption of innovative activities. These indirect costs can be disruptive and adversely impact normal business operations, especially in smaller companies. In this article, three examples of the hidden costs are presented.

First, the possible disclosure of confidential information is a hidden risk of patent litigation. As part of the discovery process, the court may require parties to present sensitive information to defendants and potentially the public. For example, the opposing party usually discovers information about product development, manufacturing, marketing and sales, such as pricing information and customer lists.⁴² According to Suzanne Scotchmer, one of the most expensive parts of litigation is discovery, the process by which litigants are allowed to find out details about each other's cases. For example, the parties depose the involved parties and the views of their experts who would testify at the court on technical matters.⁴³

Second, in defending against the patent claims, most accused infringers assert that the patent in question is invalid. When a company producing an actual product is threatened with an infringement claim by a patent holder, it must decide whether to risk having its entire product shut down. If the patent claim relates only to a small aspect of the product, the threat creates an undue risk.⁴⁴

36 Small enterprises and micro-enterprises are defined in the Recommendation (EU) No. 2003/361/EC of the Commission [2003] OJ L 124.

37 Rule 370.8 of the Rules of Procedure of the Unified Patent Court.

38 *ibid.*

39 Rule 370.10 of the Rules of Procedure of the Unified Patent Court.

40 Cremers et al. (n 29), 1, 5 and 60.

41 M B Lowrie, 'Critical Issues in Managing Patent Litigation' (2004) 44 *The Journal of Law and Technology* 271; J Bessen and M J Meurer, 'The Direct Costs from NPE Disputes' (2014) 99 *Cornell Law Review* 390; P-O Bjuggren and others 'Swedish Patent Litigation Survey of Small and Medium-sized Enterprises' (2017). Available at <https://www.diva-portal.org/smash/record.jsf?pid=diva2%3A1147200&dswid=-8299> (accessed 5 March 2023).

42 S Burrill 'Patent Litigation: Is It Worth the Expense?' (2006) 26 *Genetic Engineering & Biotechnology News*. Available at <https://www.genengnews.com/magazine/patent-litigation-is-it-worth-the-expense/> (accessed 8 March 2023).

43 S Scotchmer *Innovation and Incentives* (The MIT Press 2004) 201.

44 R Feldman, 'Intellectual Property Wrongs' (2013) 250 *Stanford Journal of Law, Business & Finance* 260.

Thus, the plaintiff would not only lose its case for monetary damage but also would lose its proprietary rights in the technology.

Finally, companies should consider their third-party relationships before engaging in patent litigation. Third-party relationships refer to disruption costs to third parties, such as customers.⁴⁵ For example, customers may hesitate before dealing with companies embroiled in litigation if they have another source for similar products. In addition, for companies dependent upon external financing, the risks and expense of litigation may dissuade lenders and investors.⁴⁶

4. Enforcement Directive: reasonability, proportionality and equity

In European jurisdictions, remedies are mainly harmonised by national laws. However, the IP Enforcement Directive has harmonised some parts of the remedies. In 2017, the Commission clarified the provisions of the IP Enforcement Directive where there have been different interpretations in EU countries. One reason is that there are no uniform proceedings and judicial traditions even though the IP Enforcement Directive provides minimum harmonisation. The guidance is based on the rulings of the Court of Justice of the European Union (CJEU) and the best practices identified in EU countries. This guidance also focuses on particularly important means to SMEs, such as a rule on calculating damages and awarding legal costs.⁴⁷

The CJEU addressed the legal costs in Case C-57/15 *United Video Properties Inc. v Telenet NV*. In this case, the CJEU analyses the compatibility with the EU law of the Belgian national system on legal costs. A patent holder, United Video Properties Inc., brought an infringement action against Telenet before the Belgian Courts. The Commercial Court of Antwerp dismissed that action and declared the patent at issue to be invalid. Consequently, the defendant Telenet NV requested that United Video Properties be ordered to reimburse 185 462.55 EUR for lawyers' fees and 44 400 EUR for the assistance provided by an agent specialised in the field of patents. According to Article 1017(1) of the Belgian Judicial Code, the court

must order the unsuccessful party in a judicial proceeding to bear the legal costs in every final decision.⁴⁸ Such indemnity must be determined by the judge considering the circumstances of the case, albeit by following the minimal and maximum amounts mentioned in Article 2022 of the Judicial Code.⁴⁹ Furthermore, following the case law of the Belgian Court of Cassation, the reimbursement of the costs of a technical adviser is provided only in the case of fault on the part of the unsuccessful party. Due to this limitation, Telenet argued that the Belgian legislation was contrary to Article 14 of the IP Enforcement Directive.

According to Article 14 of the IP Enforcement Directive, the unsuccessful party should pay reasonable and proportionate legal costs and other expenses incurred by the successful party. Those remedies shall also be effective, proportionate and dissuasive.⁵⁰ Article 3 of the IP Enforcement Directive provides that remedies should be fair and equitable.⁵¹ This article sets a general obligation, and the court should interpret other articles considering the general requirements of this article. The CJEU has suggested that fee shifting means full recovery of the successful party's expenses. According to the CJEU, the unsuccessful party must bear all the financial consequences of his conduct.⁵² The CJEU refers to total compensation. The case law leaves open how the core of Article 14 of the IP Enforcement Directive is to be interpreted, as the words 'reasonable' and 'proportionate' are vague.

However, reasonability and proportionality set limits to the total compensation. These limitations are beneficial as too strong a system of IP protection may not be optimal from the perspective of stimulating innovation. This applies equally to all remedies available to patent holders of IP rights.⁵³ Suppose that remedies are granted in a manner that allows exorbitant payments to patent holders. In that case, they are not suitable for achieving the goals of promoting innovation as set out by the EU legislator.⁵⁴ The CJEU links proportionality to the reimbursement of costs on a general level. Suppose that the requirement of proportionality does not imply that

45 M Lemley et al., 'The Patent Enforcement Iceberg' (2019) 97 *Texas Law Review* 801–833.

46 S Burrill 'Patent litigation: Is it Worth the Expense?' (2006) 26 *Genetic Engineering & Biotechnology News*. Available at <https://www.genengnews.com/magazine/patent-litigation-is-it-worth-the-expense/> (accessed 17 February 2023).

47 Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the Enforcement of Intellectual Property Rights COM (2017) 708 Final, 1–2.

48 Art 1017(1) of the Belgian Judicial Code of 10 October 1967 (updated from 31 December 2018 to 14 August 2019).

49 Art 2022 of the Belgian Judicial Code of 10 October 1967 (updated from 31 December 2018 to 14 August 2019).

50 Art 14 of the IP Enforcement Directive.

51 Art 3 of the IP Enforcement Directive.

52 Case C-406/09 *Realchemie Nederland v. Bayer CropScience AG* EU:C:2011:668, para 49.

53 G B Dinwoodie and R C Dreyfuss, *Neofederalist Vision of TRIPS: the Resilience of the International Intellectual Property Regime* (Oxford University Press 2012).

54 Sikorski R, 'Towards a More Orderly Application of Proportionality to Patent Injunctions in the European Union' (2022) 53 *IIC* 39.

the unsuccessful party must necessarily reimburse the entirety of the costs incurred by the other party. In that case, it does, however, mean that the successful party should have the right to reimbursement of, at the very least, a significant and appropriate part of the reasonable costs actually incurred by that party.⁵⁵

Even though Article 14 of the IP Enforcement Directive refers to full compensation of expenses, this is not a requirement. The CJEU has found that, while the provision of proportionality does not imply that the unsuccessful party must necessarily reimburse the entirety of the costs incurred by the other party, it does, however, mean that the successful party should have the right to reimbursement of, at the very least, a significant and appropriate part of the reasonable costs incurred by that party.⁵⁶ Reasonable fees refer to reasonable payable in the German version of Article 14 of the IP Enforcement Directive.⁵⁷

The costs whose reimbursement is claimed for the unsuccessful party may be restricted to expenses necessarily incurred by the successful party. Article 140(b) of the Rules of Procedures of the Court includes costs necessarily incurred by the parties for the proceedings, in particular, the travel and subsistence expenses and the remuneration of agents, advisers or lawyers.⁵⁸ Proportionality depends on several variables. The court may assess factors such as the subject matter of the proceedings, the sum involved, the complexity of legal issues arising, the work carried out to represent the client and the financial means of the party against whom the order for costs is made. In addition, the court may assess other factors of a similar nature to determine the proportionality of the lawyers' fees.⁵⁹

The CJEU has clarified that legal costs including lawyers' fees are a substantial part of the costs incurred in proceedings that ensure the enforcement of an intellectual property right. However, only those legal costs that are reasonable and proportionate are recoverable. Member States may, owing precisely to requirements of predictability, determine 'objectively' and in general terms the maximum amount recoverable within a scale

set in that country.⁶⁰ The reimbursement of lawyer's fees could be unreasonable when a lawyer's involvement in a particular action is, for example, superfluous.⁶¹

In addition, according to the IP Enforcement Directive, the demand for equity might disallow the reimbursement of costs.⁶² In Case C-57/15 *United Video Properties Inc. v. Telenet NV* refers to equity, and equity by its very nature cannot justify a general unconditional exclusion of reimbursement of costs exceeding a specified ceiling. When applying the general scheme regarding legal expenses would lead to a result considered unfair, equity leads to disregarding that scheme by way of exception. Equity cannot justify a general unconditional exclusion of reimbursement of costs exceeding a specific ceiling.⁶³ However, it needs to be clarified how the CJEU interprets the equity. This leaves some degree of flexibility and discretion for the courts. Hence, equity is often linked to discretion and is seen as a balancing instrument that acknowledges the economic situation of the unsuccessful party.⁶⁴

In the USA, an injunction in patent law is an equitable remedy. Hence, it is subject to the more flexible principles of equity and, in the final analysis, left to the court's own discretion.⁶⁵ In general, the courts have discretion whether to grant or deny injunctive relief. The courts are obliged to exercise such discretion by following well-established equity principles, namely, the four-factor test clarified in *eBay*.⁶⁶ The four-factor test is, however, flexible enough to give the court broad discretion.⁶⁷ Equity

55 Case C-57/15 *United Video Properties Inc. v. Telenet NV* EU:C:2016:611, para 29.

56 Case C-57/15 *United Video Properties Inc. v. Telenet NV* EU:C:2016:611, paras 29–30.

57 Opinion of Advocate General Campos Sánchez-Bordona in Case C-57/15 *United Video Properties Inc. v. Telenet NV* EU:C:2016:201, para 52. The German version is written as 'Prozesskosten und sonstigen Kosten soweit sind zumutbar und angemessen'.

58 Art 140 of the Rules of Procedure of the General Court OJ L 105. Opinion of Advocate General Campos Sánchez-Bordona in Case C-57/15 *United Video Properties Inc. v. Telenet NV* EU:C:2016:201, para 52.

59 *ibid*, para 53.

60 *ibid*, para 64.

61 *ibid*, para 52.

62 Art 14 of the IP Enforcement Directive.

63 Case C-57/15 (n 56), para 31.

64 Hilty (n 15), 390–391; H E Smith, 'Putting the Equity Back into Intellectual Property Remedies' (2021) 96 *The Notre Dame Law Review* 1604. See also Public Consultation on the Evaluation and Modernisation of the Legal Framework for the Enforcement of Intellectual Property Rights, European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (2016) 28.

65 A Ohly 'The Principles of European IP Enforcement Law: Effectiveness, Proportionality, dissuasiveness' in J Drexler and others (eds) *Technology and Competition, Contributions in honour of Hanns Ullrich* (Larcier, 2009) 257–274.

66 *eBay Inc. v. MercExchange L.L.C.*, 547U.S. 388 (15 May 2006).

67 I Nakayama and T Yoshiyuki 'Denial of Injunctive Relief on Grounds of Equity: Situation in the US and Japan' in R M Hilty and K-C Liu (eds) *Compulsory Licensing, Practical Experiences and Ways Forward* (Springer-Verlag, 2015), 279. In USA, Courts could deny injunctive relief on a case-by-case basis depending on other characteristics that differ by industry, such as whether the plaintiff practices the invention, like in *eBay Inc. v. MercExchange L.L.C.*, 547U.S. 388 (15 May 2006), para 391. See also 35U.S.C. § 283. Instead, relying on the express language of the Patent Act, which provides that district courts may issue injunctions in accordance with the principles of equity, the Court looked to traditional equitable principles. These are an irreparable injury, inadequate remedies available at law, the balance of hardships between parties and the public interest. See D L Burk and M A Lemley *The Patent Crisis and How the Courts can Solve It* (University of Chicago Press 2009) 160.

modifies the result that the law provides and is triggered by certain specifics for complexity and uncertainty. These proxies, for example, are related to bad faith and disproportionate hardship. However, a recent study has shown that the Federal Circuit is more favourable to the injunctive relief than the district courts following *eBay*.⁶⁸ However, *eBay* does not provide help with the European interpretation of equity. The only common characteristic is the discretion left to the court.

Recital 17 of the IP Enforcement Directive demands that the measures, procedures and remedies provided for in the Directive should be determined in each case in such a manner as to take due account of the specific characteristics of that case, including the features of each intellectual property right and, where appropriate, the intentional or unintentional character of the infringement. This recital places a general obligation. As a corollary, it raises an important question regarding how and when intentional character and negligence can be established. It would not be justified to expect implementers to undertake unreasonable searches to clear the relevant rights.⁶⁹

The CJEU examined the role of the flat rate. According to the CJEU, national legislation that lays down an absolute limit with respect to costs attached to the assistance of a lawyer should respect the following. First, national legislation must ensure that the limit reflects the reality of the rates charged for the services of a lawyer in the field of intellectual property. Second, national legislation must ensure that a significant and appropriate part of the reasonable costs incurred by the successful party are borne by the unsuccessful party. It is not possible for such national legislation, particularly in a situation in which that limit is too low, to prevent the amount of those costs from vastly exceeding the limit provided so that the reimbursement that the successful party may claim becomes disproportionate or even, where applicable, insignificant.⁷⁰

The CJEU also examined the reimbursement of the costs of a technical adviser. For this matter, the CJEU ruled that it is necessary to interpret that concept narrowly and to take the view that only those costs that are directly and closely related to the judicial proceedings fall under other expenses within the meaning of Article 14 of

the IP Enforcement Directive. The CJEU also refers to the Advocate General and his opinion. The concept of costs payable for the work of technical experts or advisers may cover different situations, some of which do not necessarily come within the category of legal costs. That term does not include any expense to a greater or lesser extent related to the bringing of the action or paid on account of it but instead costs that arise immediately and directly from the act itself. A natural or legal person may take preliminary steps, including having prior consultations with certain advisers or experts, without the associated cost having to be part of the legal costs.⁷¹

5. National jurisdictions

European national jurisdictions have implemented different systems in their national legislation to recover the expenses for the successful litigation party. Often, these systems are formulated in general terms and applicable to any proceedings. Thus, their applicability to specialised areas of law, such as patent law, is challenging. The impossibility of obtaining reasonable compensation regarding the legal costs of a judicial proceeding might act as a considerable deterrent regarding the right holders. In addition, the successful litigation party cannot recover hidden costs.

European jurisdictions and national laws implementing Article 14 of the IP Enforcement Directive vary. Court fees, and other procedural costs are fully covered, while external experts' costs, attorneys' charges and additional attorneys' fees are mostly only partly covered. For example, there are caps on the recoverability of legal costs on the grounds of fairness or proportionality to the lawsuit's value. Most European jurisdictions acknowledge equity or the economic situation of the unsuccessful party.⁷² For example, the Netherlands and Germany have fee shifting rules with similar elements. The court can, for example, use discretion and consider proportionality. However, there are also differences in how the court allocates costs between the parties.⁷³

Article 14 of the IP Enforcement Directive in the Netherlands shifted the cost to the losing party. Before implementing the IP Enforcement Directive, the Dutch

68 C B Sealman and R T Holte, 'Patent Injunctions on Appeal: An Empirical Study of the Federal Circuit's Application of *eBay*' (2017) 92 *Washington Law Review* 202. See also *Apple Inc v. Samsung Elecs. Co.*, 678F.3d 1314, 1323 (19 June 2012). In this case, it was seen that a likelihood of irreparable harm cannot be shown if sales were lost regardless of the infringing conduct. Thus, there should be a causal nexus between the infringement and the alleged harm.

69 Sikorski (n 54), 56.

70 Case C-57/15 (n 56), para 30.

71 Here, the Advocate General makes a difference to the costs of identification and research that are reimbursed under the Article damages. Opinion of Advocate General Campos Sánchez-Bordona in Case C-57/15 (n 61), para 79.

72 Public Consultation on the Evaluation and Modernisation of the Legal Framework for the Enforcement of Intellectual Property Rights, European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs 2016, 28.

73 For Germany, see Sec. 91(1) of the German Code for Civil Procedures. For the Netherlands, see § 1019h of the Dutch Code of Civil Procedure.

Courts typically shifted only a tiny amount of the fees.⁷⁴ The Netherlands now applies a fee shifting rule, and the unsuccessful party must pay the costs of the proceedings to the defendant. Only a minor part of the actual costs is not recoverable. Legal costs are calculated based on the procedure and the financial interests involved. In addition, legal costs must be reasonable and proportionate.⁷⁵ When parties settle a case, they can agree on the allocation of costs and inform the court of their agreement.⁷⁶

In Belgium, there is a scale for calculating the minimum and maximum amounts of procedural cost indemnities.⁷⁷ Thus, the case *C-57/15 United Video Properties Inc. v. Telenet NV* has been central in Belgium since the CJEU made the decision. There have been cases around the question of whether the Belgian procedural indemnity system complies with Article 14 of the IP Enforcement Directive and on costs of technical advisors.⁷⁸ In Denmark, the Enforcement Directive and Case *C-57/15 United Video Properties Inc. v. Telenet NV* led to a ruling by the High Court that the successful party is entitled to costs incurred concerning expert statements and related costs to the assistance of a patent agent.⁷⁹

In Germany, the costs are partially shifted. Germany has a value-based fee system where the costs are statutory fees, which depend on the estimated value of the dispute. The estimated value is used as a basis for the court to divide the costs between parties. Thus, costs differ from actual costs, meaning that the court is unlikely to shift all the successful parties' legal costs. As a corollary, the costs are only partially shifted to the loser. In cases where the court grants only a partial plaintiffs' request, the court divides the costs following the degree of success.⁸⁰

In France, there is a system of fee shifting. However, regarding the costs typically rewarded, the awards tend to be much more limited than the costs shifted in the UK

and Germany.⁸¹ The involvement of the court is entirely free.⁸² The court usually calculates the attorney fees at an hourly rate agreed upon with the client.⁸³

Typically, costs are allocated via an issue-based approach in the UK on a proportionate basis.⁸⁴ The PC stated in *Research in Motion UK Ltd v Visto Corp* that the costs ought to be divided on a proportionate basis to the issues won in a trial. The court noted a disproportionate burden between both sides and guided the cost assessment judge. The substantive legal issues and costs are dealt separately in England and Wales. Hence, the UK courts are unwilling to cap costs, even where a significant disparity between parties exists, although a court can give cost assessment guidance.⁸⁵

The European Patent Litigators Association (EPLIT) surveyed the costs of patent litigation proceedings in several European jurisdictions. EPLIT members rated the costs for patent infringement proceedings, separate nullity actions, patent infringement with nullity counterclaim, preliminary injunction proceedings and inspection proceedings and the percentage of cost reimbursement in favour of the successful party. According to the study, Austria, Finland, France, Germany, Hungary, Italy, the Netherlands and the UK apply a fee shifting rule. EPLIT also studied the percentage of the total costs reimbursed from a losing party. Italy has the smallest amount refunded, only up to 25 per cent. In France, the reimbursement from the losing party is between 25 per cent and 50 per cent. In Germany, Hungary, the Netherlands and the UK, it is most often between 50 per cent and 75 per cent. In Austria, the reimbursement from the losing party is between 25 per cent and 75 per cent or between 25 per cent and 50 per cent. In Finland, it is most often between 75 per cent and 100 per cent.⁸⁶

Overall, European jurisdictions apply fee shifting. Thus, European courts shift the costs partially and apply intermediate fee shifting. Most European courts shift most of the reasonable and proportionate costs. However, the lack of empirical statistics makes comparing how much is shifted difficult. Thus, whether the amount shifted is genuinely significant and appropriate in all European countries can be questioned.

74 J Brinkhof, 'The Enforcement of Patent Rights in the Netherlands', (2000) 31 *IIC* 706 at 721; Cremers et al. 2016. See *Danisco A/S v. Novozymes A/S*, Court of Appeal the Hague, 26 February 2013, Case No. 200.094.921/01.

75 The Dutch Code of Civil Procedure (n 73); K Cremers et al. 'Invalid but Infringed? An Analysis of Germany's Bifurcated Patent Litigation System' (2014) Zew Mannheim, Max Planck Institute for Innovation and Competition Research Paper No. 14–14. Available at <https://d-nb.info/1191835979/34> (accessed 8 March 2023); *ibid*, 721–722.

76 The Dutch Code of Civil Procedure (n 73); Brinkhof (n 74), 721–722.

77 Art 2 of the Royal Decree; Art 1022 of the Judicial Code established by the Royal Decree.

78 See, for example, Court of Appeal of Brussel, 18 May 2020, *Assia v. Proximus and Nokia Bell* and Court of Appeal of Mons *Nouvag AG a.o. / Malak, Jean*, 3 April 2017, no. 2016/RG/263.

79 The Maritime and Commercial High Court of Denmark, 15 June 2018, A-49-17.

80 Section 92 of the German Code for Civil Procedures; Section 39.1. of the German Code for Court Costs. See also the Remuneration Code for Lawyers' Costs. McDonagh (n 23), 41–42; K Cremers et al., 'Patent Litigation in Europe' (2013) 44 *Journal of Law and Economic*.

81 McDonagh (n 23), 54; Cremers et al., *ibid*.

82 Art L. 111–2 Code de l'organisation judiciaire (COJ); P Véron, 'Patent Infringement Litigation in France' (2002) 93 *Mitteilungen der Deutschen Patentanwälte* 386, 401.

83 Cremers et al (n 80).

84 Section 44 of the Civil Procedure Rules 1998; McDonagh (n 23), 27. See *Research in Motion UK Ltd v Visto Corp* [2008] EWHC 819 (Pat); 31(5) I.P.D. 31033.

85 Helmers and McDonagh (n 14), p. 377, 382. See also *Research in Motion UK Ltd v Visto Corp* [2008] EWHC 819 (Pat); 31(5) I.P.D. 31033.

86 EPLIT, Survey on Costs of Patent Litigation across Europe (2021).

6. Unitary patent regime and fee shifting

6.1 Unitary patent regime and role of the CJEU

The UPC is not an EU body. However, it applies EU law. Several legal scholars have criticised this role.⁸⁷ According to Article 20 of the UPC Agreement, the UPC shall apply Union law in its entirety. In addition, the UPC shall respect its primacy.⁸⁸ According to Article 21 of the UPC Agreement, the UPC shall cooperate with the CJEU to ensure the correct application and uniform interpretation of Union law, as any national court, following Article 267 of the Treaty on the Functioning of the European Union (the TFEU). Furthermore, decisions of the CJEU shall be binding on the UPC.⁸⁹ An essential problem is the UPC's direct application of EU law even though the UPC has no formal role in the EU.⁹⁰

The European Patent Office is not an EU body either. Nevertheless, the EU and the CJEU have played a prominent role within the European patent regime because of the EU Biotechnology Directive and the EU provisions regarding Supplementary Protection certificates (SPC).⁹¹ The CJEU's role in patenting is limited, and it has not held an oversight role concerning the validity and infringement of European patents.

According to Article 21 of the UPC Agreement, the UPC can make a referral to the CJEU in much the same way as an EU Member State national court. Specifically, the UPC can refer a matter to the CJEU where there is an issue covered by EU law, for example, regarding the following topics: biotechnological inventions,⁹² plant

variety rights,⁹³ SPCs for medical products,⁹⁴ a matter governed by the Intellectual Property Right Enforcement Directive⁹⁵ or a question of interpretation of Regulation 1257/2012.⁹⁶ In addition, the UPC may refer to the CJEU when an issue is covered by one of the other EU Directives explicitly mentioned in the UPC Agreement under Article 27: Directive 2001/82/EC (veterinary medical products),⁹⁷ Directive 2001/83/EC (medical products for human use),⁹⁸ Directive 2009/24/EC (computer programs),⁹⁹ Directive 98/44/EC (biotechnological inventions)¹⁰⁰ and Regulation 2100/94 (plant variety rights).¹⁰¹

The role of the CJEU has been kept to minimum concerning substantive patent matters. The experience of the CJEU's role with expansive interpretations in trade mark law and copyright law within the EU may influence this matter. There are concerns about delays resulting from references to the CJEU as well as the CJEU's lack of expertise in patent law.¹⁰² In particular, the *Monsanto* and *Brüstle* judgments could be seen as limiting the potential

87 See, for example, R M Hilty, 'The Unitary Patent Package: Twelve Reasons for Concern' (2012) Max Planck Institute for Intellectual Property & Competition Law Research Paper No 12–12; H Ullrich 'The European Union's Patent System after Brexit: Disunited, but Unified?' in M Lamping, and H Ullrich (eds) *The Impact of Brexit on Unitary Patent Protection and its Court* (Max Planck Institute for Innovation and Competition Research Paper No. 18–20 2018); A Strouel 'The Unified Patent Court system is not the best solution for Europe and for innovation' (2020) CRIDES/UC Louvain Position Paper. Available at <https://uclouvain.be/fr/instituts-recherche/juri/crides/actualites/upc-alternatives.html> (accessed 8 March 2023); T Jaeger, 'Delayed Again? The Benelux Alternative to the UPC' (2021) 70 *GRUR International* 1133–1144.

88 Art 20 of the Agreement on a Unified Patent Court, [2013] OJ C175/1 (the UPC Agreement).

89 Art 21 of the UPC Agreement. See also Consolidated Version of the TFEU [2010] OJ C 83/01 (the TFEU).

90 Jaeger (n 87), 1134.

91 Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions [1998] OJ L 213; Regulation 469/2009 concerning the SPC for medical products [2009] OJ L 152; Regulation 1610/1996 concerning the protection of a SPC for plant protection products [1996] OJ L 198/30. See also G Gaskell, 'How Europe's Ethical Divide Looms Over Biotech Law and Patents' (2012) 30 *Nature Biotechnology* 392; McDonagh (n 23), 102–103.

92 Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions [1998] OJ L 213.

93 Council Regulation (EC) No. 2100/94 of 27 July 1994 on Community plant variety rights [1994] OJ L 227. See also Council Regulation (EC) No. 873/2004 of 29 April 2004 amending regulation (EC) No. 2100/94 on Community plant variety rights [2004] OJ L 162.

94 Regulation 469/2009 concerning the SPC for medical products [2009] OJ L 152.

95 Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L 157/45 (the IP Enforcement Directive).

96 Regulation (EU) No. 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of creation of unitary patent protection [2012] OJ L361/1 (Regulation 1257/2012).

97 Directive 2001/82/EC of the European Parliament and of the Council of 6 November 2001 on the Community code related to veterinary medical products [2009] OJ L 162 including any subsequent amendments.

98 Directive 2001/83/EC of the European Parliament and of the Council of 6 November 2001 on the Community code related to medicinal products for human use [2009] OJ L 162 including any subsequent amendments.

99 Directive 2009/24/EC of the European Parliament and the Council of 23 April 2009 on the legal protection of computer programs [2009] OJ L 111 including any subsequent amendments.

100 Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions [1998] OJ L 213 including any subsequent amendments.

101 Council Regulation (EC) No. 2100/94 of 27 July 1994 on Community plant variety rights [1994] OJ L 227 including any subsequent amendments.

102 J Griffiths, 'Constitutionalising or Harmonising: The Court of Justice, the Right to Property and European Copyright Law' (2013) 38 *European Law Review* 65; L McDonagh, 'From Brand Performance to Consumer Performativity: Assessing European Trademark Law after the Rise of Anthropological Marketing' (2015) 42 *Journal of Law & Society* 611; J Smits and W Bull 'The Europeanization of Patent Law: Towards a Competitive Model' in A Ohly and J Pila (eds) *The Europeanization of Intellectual Property Law. Towards a European Legal Methodology* (OUP 2013) 52; J Brinkhof and A Ohly 'Towards a Unified Patent Court in Europe' in A Ohly and J Pila (eds) *The Europeanization of Intellectual Property Law. Towards a European Legal Methodology* (OUP 2013) 201; T Mylly, 'Hovering between Intergovernmentalism and Unionization: The Shape of Unitary Patents' (2017) 54 *Common Market Law Review* 1387.

expansion of patent law exclusivity and patentability in biotechnology.¹⁰³ An EU patent litigation system, which entirely excluded any competence of the CJEU, however, would neither be consistent with the TFEU nor desirable. Patent law cannot be isolated. It is an integral part not only of commercial law but also of the whole legal system.¹⁰⁴ Hence, the CJEU will have some judicial input within the UPC regime. The UPC must refer for a preliminary ruling if EU law is at stake. EU law would be at stake when the UPC applies EU patent law or national law that may conflict with the EU law. In addition, this would be the case when the interpretation of EU or national patent law may conflict with the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) or any other international agreement on patent protection concluded by the EU.¹⁰⁵ In the *Daiichi Sankyo*, the CJEU amended its previous self-restraint concerning the substantive patent provisions of the TRIPS Agreement and affirmed its primacy interpreting these rules. The *Daiichi Sankyo* may have fundamental repercussions for the CJEU's capability to influence patent law since the TRIPS Agreement contains minimum standards intended to harmonise the patent law of WTO member states and specific rules on prior users' rights and exceptions.¹⁰⁶

The impact of the role of the CJEU is yet to be determined. Regardless of vagueness, the UPC will refer for a preliminary ruling when a case concerns EU law. The UPC will also follow the case law of the CJEU related to the interpretation of the Enforcement Directive. Thus, the UPC can seek guidance for the interpretation of reasonable, proportionate and equity from the CJEU case law. The patent regime will have to find the right balance. Hence, the CJEU should decide issues of broader relevance, which are related to basic principles or other

areas of EU law, but it should not get involved in the technicalities of patentability or of patent scope.¹⁰⁷

6.2 Unitary patent regime and fee shifting rules

The unitary patent regime applies the fee shifting rule. Hence, according to Article 69 of the UPC Agreement, the unsuccessful party must pay the successful party's legal costs and other expenses. This article resembles Article 14 of the IP Enforcement Directive. Hence, only reasonable and proportionate legal costs and other expenses may be recovered, and equity serves as a ground for rendering the general rule inapplicable.¹⁰⁸

Several principles limit the fee shifting rule in Article 69 of the UPC Agreement. First, the successful party may recover only reasonable and proportionate legal costs and other expenses. Second, when the UPC assesses fee shifting rules, equity serves as a ground for rendering the general rule of fee shifting inapplicable. Third, the UPC must obey the ceiling set following the Rules of Procedure. Fourth, when the party has only partial success, or the case has exceptional circumstances, the UPC may order the parties to bear their own costs or apply a different apportionment of costs based on equity. Fifth, the party who causes unnecessary costs to the UPC, or the other party, must pay those costs.¹⁰⁹ Hence, the UPC Agreement leaves room for the discretion of the UPC.

The Administrative Committee has adopted a scale of ceilings for recoverable costs by reference to the value of the proceedings. The Administrative Committee may adjust the scale from time to time.¹¹⁰ The UPC must obey the ceiling set following the Rules of Procedure. The ceilings set out the scales of costs that a successful party may recover from their opponent. The Table of Court Fees sets a 38 000 EUR cap for cases valued at or below 250 000 EUR, a 2 000 000 EUR cap for cases valued at or above 50 000 000 EUR and eight additional intermediate caps in between.¹¹¹ Setting a cap means that the UPC may consider an order of payment reasonable more easily. Hence, equity plays a more central role. However, equity cannot justify a general unconditional exclusion of reimbursement of costs exceeding a specific ceiling.¹¹²

The UPC can amend the ceilings of the recoverable costs to a certain extent. Therefore, the UPC may raise

103 See T Mylly, 'Hovering between Intergovernmentalism and Unionization: The Shape of Unitary Patents' (2017) 54 *Common Market Law Review* 1387. Case C-428/08, *Monsanto Technology v. Cefetra*, EU:C:2010:402 and Case C-34/10, *Oliver Brüstle v. Greenpeace eV*, EU:C:2011:669.

104 J Brinkhof and A Ohly 'Towards a Unified Patent Court in Europe' in A Ohly and J Pila (eds) *The Europeanization of Intellectual Property Law. Towards a European Legal Methodology* (OUP 2013) 215.

105 A Dimopoulos 'The Role of the CJEU' in C Wadlow and J Pila (eds) *The Unitary EU Patent System* (Hart Publishing 2015) 64.
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), World Trade Organization, signed on 15 April 1994.

106 Case C-414/11 *Daiichi Sankyo and Sanofi-Aventis Deutschland* EU:C:2013:520; Art 27 to 34 of the TRIPS Agreement. For the previous jurisprudence of the CJEU regarding the interpretation of the patent provisions included in the TRIPS Agreement, see Case C-431/05 *Merck Genericos* EU:C:2007:496. See also A Dimopoulos and P Vantsiouri, 'Of Trips and Traps: The Interpretative Jurisdiction of the Court of Justice of the European Union over Patent Law' (2014) 39 *European Law Review* 230; A Jacopo, 'New Developments in the EU System of Judicial Protection: The Creation of the Unified Patent Court and Its Future Relations with the CJEU' (2017) 24 *Maastricht Journal of European and Comparative Law* 16–17.

107 J Brinkhof and A Ohly 'Towards a Unified Patent Court in Europe' in A Ohly and J Pila (eds) *The Europeanization of Intellectual Property Law. Towards a European Legal Methodology* (OUP 2013) 215.

108 Art 69 of the UPC Agreement.

109 *ibid.*

110 Rule 152.2 of the Rules of Procedure of the Unified Patent Court.

111 Rule 152.2 and Table of Court Fees of the Rules of Procedure of the Unified Patent Court.

112 Case C-57/15 (n 56), para 31.

or limit the ceiling in limited situations. For example, the UPC may raise or limit the ceiling considering the principle of fair access to justice if the case is complex, multiple languages are used or the financial capability of parties differs.¹¹³ The UPC may lower the ceiling applicable if the unsuccessful party is an SME. In addition to the SME status, the UPC must consider whether the recoverable cost is manifestly disproportionate and unreasonable regarding the financial capacity.¹¹⁴ When making such a decision, the UPC considers all available information on the parties. The analysed information includes the procedural behaviour of the parties, the applicable level of the ceiling for recoverable costs compared with the annual turnover of both parties, the type of economic activities of both parties and the impact that the lowered ceiling would have on the other party.¹¹⁵

It needs to be clarified from the current texts if the successful party recovers the court fees from the unsuccessful party. Based on the UPC Agreement, this is the case as other expenses are mentioned. Still, the Rules of Procedure of the Unified Patent Court indicate that these ceilings only apply to representation costs, which suggests that the successful party cannot recover court fees.¹¹⁶ Concerning court fees, small enterprises and micro-enterprises are required to pay only 60 per cent of the fixed and value-based court fees.¹¹⁷ According to the Rules of Procedure of the Unified Patent Court, fixed and value-based fees may be reimbursed only in certain situations and to a certain extent. In these situations, the case is heard by one judge, parties withdraw an action or parties conclude their action with a settlement. The UPC may also consider the stage of proceedings and the procedural behaviour of the party.¹¹⁸ Suppose that the amount of court fees threatened the economic existence of a party who is a natural person and that party provided reasonable and plausible evidence to support the threat. In that case, the court may, upon request by that party, wholly or partially reimburse the fixed and value-based fee.¹¹⁹

Fee shifting in the unitary patent regime has limitations and discretionary elements, such as proportionality, equity and partial success. According to Helmers and McDonagh, in an issue-based approach, where judges use their discretion, a fairer outcome is more likely, as it is rare

to find an overall winner in patent cases. For example, if a company wins the case overall, it may still have to pay costs for the issues it did not win.¹²⁰ The UPC Agreement states that in a case of partial success, the UPC may order the parties to bear their own costs. This partial success is based on equity.¹²¹ This is like the national jurisdiction of the UK and Germany.

7. Conclusion

Fee shifting enhances the quality of the claims that are litigated and decreases abusive litigation and litigation with weak claims fee shifting fits well and has a long tradition in European jurisprudence. The IP Enforcement Directive has harmonised practices to a certain extent. The most critical CJEU case addressing remedies is C-57/15 *United Video Properties Inc. v. Telenet NV*. The UPC will follow the case law of the CJEU related to interpreting the Enforcement Directive. Fee shifting has its own peculiarities. Thus, balancing tools are needed to correct this. One example is disproportionality between parties. The IP Enforcement Directive and the practice of the CJEU use reasonability, proportionality¹ and equity as balancing tools.

The European fee shifting rule is an intermediate approach to fee shifting. The intermediate approach allows the winning litigant to recover some, but not all, of its litigation expenses. The system of the procedural indemnity is compliant with Article 14 of the IP Enforcement Directive. In addition, the successful party can cover costs concerning expert statements and costs related to the assistance of a patent agent and technical advisors. However, there is a need for empirical statistics on different European jurisdictions related to fee shifting and whether fee shifting is significant and if Article 14 of the IP Enforcement Directive is followed by the Contracting States.

Under the unitary patent regime, the unsuccessful party must pay the successful party's legal costs and other expenses. However, several principles limit the fee shifting rule. The unitary patent regime leaves room for the discretion of the UPC. For example, the successful party may be reimbursed only reasonable and proportionate legal costs and other expenses. In addition, the UPC can consider equity or partial success as a ground for rendering the general rule inapplicable. Finally, the Rules of Procedure of the Unified Patent Court set a ceiling for

113 Recitals 1 and 2 of the Rules of Procedure of the Unified Patent Court.

114 Rule 370.8 of the Rules of Procedure of the Unified Patent Court Rule.

115 Recital 3 of the Rules of Procedure of the Unified Patent Court.

116 Art 69 of the UPC Agreement. See also Rule 152.1 of the Rules of Procedure of the Unified Patent Court.

117 Rule 370.8 (n 114).

118 Rule 370.9 of the Rules of Procedure of the Unified Patent Court.

119 Rule 370.10 of the Rules of Procedure of the Unified Patent Court Rule.

120 Helmers and McDonagh (n 14), 382.

121 Art 69 of the UPC Agreement.

reimbursing maximum costs. The UPC can amend the ceilings of the recoverable costs in limited situations. The UPC may raise or limit the ceiling considering the fair access to justice principle. The circumstances when the UPC may apply the principle of fair justice are such as a complex case, multiple languages or the inequality of parties' financial capability.

For SMEs, patent litigation is prohibitive and the UPC brings an opportunity to lower costs. The UPC may lower the ceiling applicable if the unsuccessful party is an SME. Small enterprises and micro-enterprises are entitled to pay only 60 per cent of the fixed and value-based fees of the UPC. In addition, the UPC can order payment of the remaining fee if the 60 per cent is manifestly disproportionate and unreasonable regarding the applicant's financial capacity. However, there are also hidden costs involved that must be taken into notice. Companies cannot reimburse those costs, and estimating them is complex.

Overall, the costs related to the unitary patent regime are challenging for SMEs for at least three significant reasons. First, a large territorial scope of the patent is desired. Thus, the UPC and Unitary patents are good options only for those SMEs that enforce patents in four or more European countries instead of one or a few countries. Second, there is no ability to selectively abandon countries as time passes to reduce the renewal fee burden. Third, litigation in the UPC provides cost efficiency by preventing parallel litigation. For SMEs, the advantage of avoiding parallel litigation is not essential. Due to the lack of financial resources and expertise, SMEs are not simultaneously challenging patents in multiple countries. For infringement cases that are limited to only one or two countries, litigation before the national courts is likely to be less expensive. Hence, the cost efficiency of the unitary patent regime for SMEs is not unambiguous, and careful analysis of all relevant costs is needed for those SMEs that consider obtaining unitary patents.