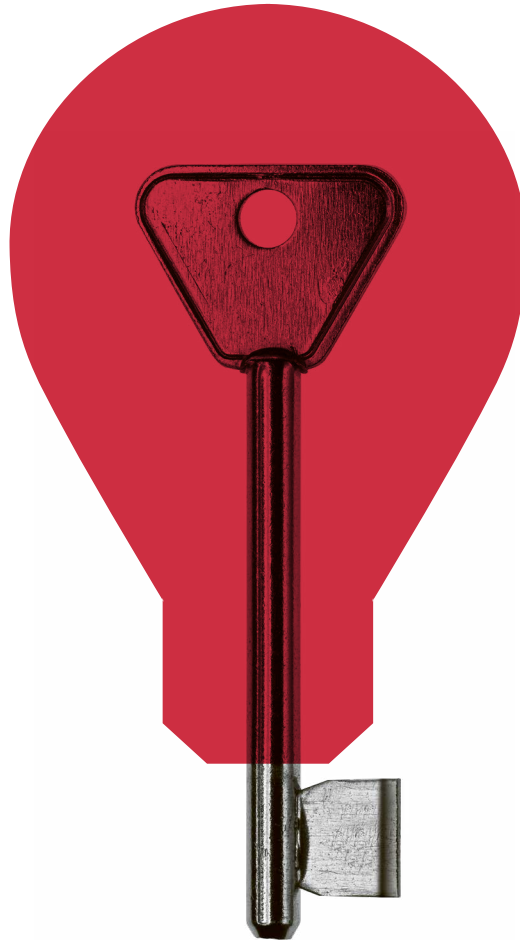


N

Monthly
Newsletter
May 2023

Intellectual
Property

Schellenberg
Wittmer



Arbitration of Patent Disputes and the Agreement on a Unified Patent Court

Philipp Groz, Peter Picht, Alisa Zehner

Key Take-aways

- 1.** Switzerland is one of the seats of arbitration parties choose most frequently for the resolution of their international intellectual property disputes.
- 2.** The Agreement on a Unified Patent Court concerns not only patent litigation, but also contains provisions related to mediation and arbitration of patent disputes.
- 3.** We do not expect the Agreement on a Unified Patent Court to have any relevant impact on arbitration of patent-related disputes in Switzerland.

1 Arbitration of Patent Disputes in Switzerland

Switzerland is one of the seats of arbitration parties choose most frequently for the resolution of their international commercial disputes. This also applies to international agreements relating to intellectual property rights (**IPR**), such as **patent licensing agreements**. Among other potential benefits (such as confidentiality), agreeing to arbitrate such disputes may allow for one single forum to decide all pertinent issues and avoid costly and time-consuming multi-jurisdictional litigation (e.g., where a licensee asserts the invalidity of licensed patents as a counterclaim or defense).

Initially, there had been reservations as to whether IPR disputes (especially on infringement and validity) are capable of being resolved by (private) arbitration, or whether such disputes should be reserved to national state courts or authorities. Nowadays, many jurisdictions consider most types of IPR disputes arbitrable (with effect between the parties to the arbitration, i.e. *inter partes*). This means, for example, that an arbitral tribunal may conclude in a royalty payment dispute that no royalties are due because the licensed patent is deemed invalid or not infringed. Swiss law follows a decidedly **liberal and pro-arbitration approach**. In an international arbitration seated in Switzerland, Swiss law provides that any claim involving an economic interest is capable of being resolved by arbitration (art. 177(1) Swiss Federal Act on Private International Law). IPR disputes are considered arbitrable. For example an award that finds a patent invalid may be enforced in Switzerland and submitted to the Swiss Federal Institute of Intellectual Property for amending the register in relation to a patent claiming protection in Switzerland. Thereby, an arbitral award on patent invalidity may even obtain an effect on third parties, i.e. an *erga omnes* effect.

2 Agreement on a Unified Patent Court

The Agreement on a Unified Patent Court (**UPCA**) will enter into force on 1 June 2023. As of that point in time, a Unitary Patent is created (cf. EU Regulation No. 1257/2012). The Unitary Patent will be based on a European Patent, but benefits (if so requested by the patent holder) from unitary effect throughout the territory of the participating member states. The already existing (classical) European Patent (which provides upon grant a bundle of individual national patent rights) continues to be available as an alternative.

The Unified Patent Court (**UPC**) will have **exclusive jurisdiction** over disputes (in particular on infringement and/or validity) involving Unitary Patents and European Patents, supplementary protection certificates (**SPCs**) issued for a product covered by such a patent, and applications for a European Patent (art. 3 and 32 UPCA). However, during a seven-year transitional period (until 2030), validity or infringement actions relating to European Patents or SPCs may still be brought before national courts or other competent national authorities, which will have concurring jurisdiction with the UPC (art. 83(1) UPCA). Holders of European Patents and SPCs may opt-out from the exclusive competence of the UPC during the transitional period (art. 83(3) UPCA).

Currently, 17 EU member states have ratified the UPCA. Non-EU member states (like Switzerland or the United

Kingdom) will not be able to take part in the UPC and Unitary Patent regime. This being said, Swiss companies will nevertheless be strongly affected by the new system (e.g., as holders of patents falling within the UPC's competence, or as parties to proceedings before the UPC).

In addition to the UPC, a dedicated Patent Mediation and Arbitration Centre is established.

3 The UPCA Creates a Patent Mediation and Arbitration Centre

Article 35 UPCA establishes a dedicated Patent Mediation and Arbitration Centre (**PMAC**) for patent disputes generally falling within the UPCA's scope. Article 35(2) UPCA limits the PMAC's competence by stating that a patent "*may not be revoked or limited in mediation or arbitration proceedings*" (likely meaning that only *erga omnes* decisions to such effect are prohibited). The PMAC has seats in Lisbon (Portugal) and Ljubljana (Slovenia). It is tasked with establishing mediation and arbitration rules, providing a roster of mediators and arbitrators, administering Unitary Patent-related alternative dispute resolution (**ADR**), and promoting such dispute resolution more generally. According to Rule 11(1) of the Rules of Procedure of the UPC (**RoP**), the UPC may propose that parties make use of the PMAC "*to explore a settlement*."

4 Impact of PMAC on Existing Alternative Dispute Resolution Options for Patent Disputes?

On a general level, it appears that the drafters of the UPCA (and the RoP) primarily envisioned the concept of **mediation, not arbitration**, when drafting the (few) provisions related to the PMAC and ADR falling within the UPC's competence. As a consequence, many arbitration-related questions remain **unanswered**, including such in relation to a potential impact on existing ADR options for patent disputes outside the UPC system.

4.1 Current Status of the PMAC

As of the date of this newsletter, not much is known about the strike current **status of the PMAC**. We understand that no director has been appointed yet. The selection criteria for mediators and arbitrators are not yet known, let alone the individuals who will ultimately be on the list of mediators and arbitrators. It is also

not clear whether parties will be able to select an arbitrator for a PMAC arbitration not listed by the PMAC. The arbitration rules are also not yet available. The PMAC will thus not really be operational by June 2023, and possibly for another while to come.

4.2 Seat of a PMAC Arbitration

The **seat of an arbitration** is of key practical importance. It determines the state in which an award will be deemed to have been rendered and the applicable national arbitration law (*lex arbitri*), which in turn governs various issues, such as the right to challenge an award. The UPCA does not provide guidance as to where PMAC-administered arbitrations may be seated, and whether the PMAC may also administer an arbitration seated in a state which is not a member to the UPCA (like Switzerland). In July 2022, the Rules of Operation of the PMAC (**RoO**) were adopted. Rule 4 RoO provides that "*arbitration proceedings can be held either at the seats [of the PMAC] or elsewhere.*" This is likely to be understood as a clarification that hearings do not need to be conducted in Lisbon or Ljubljana, rather than as a statement regarding the seat of a PMAC arbitration (as opposed to the seat of the Centre as such).

4.3 Subject Matter Scope of a PMAC Arbitration

Article 35(2) UPCA provides that the PMAC shall handle "*patent disputes falling within the scope of this Agreement.*" However, provided the parties agree, it would be desirable to also resolve related issues in the same arbitration, even if they are (partly) outside of the scope of the UPCA (e.g., a related dispute concerning the Swiss part of a European Patent). Rule 5 RoO appears to support this notion, as it provides that the PMAC shall promote arbitration "*in cases which fall wholly or in part within the competence of the UPC.*"

4.4 Can a Swiss-seated Arbitral Tribunal Resolve Disputes Over Unitary Patents?

As discussed above, Switzerland is not a party to the UPCA and accepts the arbitrability of IPR disputes. If, for example, a license agreement contains an arbitration clause with seat in Switzerland and the licensee were to raise arguments of non-infringement or invalidity of a licensed Unitary Patent in the arbitration, a Swiss-seated arbitral tribunal should not decline its jurisdiction based on the fact that the UPCA provides for the UPC's exclusive competence to decide on the infringement or validity of Unitary Patents. Hence, parties may still validly agree to arbitrate patent-related disputes in Switzerland, even though this includes matters falling within the UPC's exclusive competence. This is also important to note in relation to arbitration clauses in existing international agreements regarding European Patents, as these patents may fall within the jurisdiction of the UPC starting from 1 June 2023.

4.5 Consent Award and Confirmatory Decision of the UPC

Pursuant to Rules 11(2) and 365(1) RoP, the UPC, upon the parties' request, may by decision confirm an "*award by consent*" and the "*decision may be enforced as a final decision of the Court.*" It appears that the drafters of the RoP had concerns as to the enforceability of a settlement reached in meditation, without considering that an arbitral tribunal's consent award may generally be enforced under the (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (**NYC**).

Pursuant to Rule 11(2) RoP, such confirmatory decision shall also be available in case the PMAC's "*facilities*" were not used. Does this mean, for example, that a consent award rendered by a Swiss-seated arbitral tribunal acting under the ICC Arbitration Rules and concerning a Unitary Patent may become part of a confirmatory decision by the UPC? Rule 11 RoP does not seem to exclude such understanding, at least where proceedings before the UPC were stayed pending the outcome of the arbitration.

International patent-related disputes may still be arbitrated in Switzerland.

4.6 Enforcement of Arbitral Awards Relating to Unitary Patents and European Patents

The NYC applies if a party to an arbitral award rendered in Switzerland requests its recognition and enforcement abroad. Article 5(2)(a) NYC provides that a court may refuse recognition and enforcement where the subject matter of the dispute is considered non-arbitrable under the law of the enforcement state. It is possible that an enforcement court in a participating EU member state of the UPCA will take the view – based on article 35(2) UPCA, or based on a restrictive notion of arbitrability of patent disputes under national law – that a Unitary Patent or European Patent **cannot be revoked or limited in arbitration proceedings**, irrespective of whether the arbitration was administered by the PMAC. As a result, the enforcement court may refuse recognition and enforcement of an award to the extent it contains a finding of patent invalidity *erga omnes*.

In practice, however, there is rarely an objective need to declare the invalidity of a patent *erga omnes* in the dispositive part of an arbitral award in order to resolve a contractual dispute. Invalidity arguments can usually either be dealt with as preliminary questions in the award's reasoning (e.g., as defenses to requested monetary or injunctive relief), or the arbitral tribunal may declare a patent invalid between the parties only, i.e. *inter partes*.

5 Outlook

While we will continue to closely monitor the developments at the UPC and the PMAC, it seems unlikely that the PMAC will become a viable option for parties seeking to arbitrate patent-related disputes in the near future. We also do not envisage any negative impact on existing (and tried and tested) ADR options for patent-related disputes. While parties should certainly review patent-related agreements for potential impacts of the UPC and of Unitary Patents, we do not anticipate that existing arbitration clauses providing for arbitration administered by arbitral institutions other than the PMAC and for arbitral seats outside of a UPC member state will need to be amended.



Philipp Groz
Partner Zurich
philipp.groz@swlegal.ch



Prof. Dr. Peter Georg Picht
Of Counsel Zurich
peter.picht@swlegal.ch



Dr. Lorenza Ferrari Hofer
Partner Zurich
lorenza.ferrarihofer@swlegal.ch



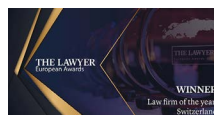
Philippe Bärtsch
Managing Partner Geneva
philippe.baertsch@swlegal.ch

The content of this Newsletter does not constitute legal or tax advice and may not be relied upon as such. Should you seek advice with regard to your specific circumstances, please contact your Schellenberg Wittmer liaison or one of the persons mentioned above.

Schellenberg Wittmer Ltd is your leading Swiss business law firm with more than 150 lawyers in Zurich and Geneva, and an office in Singapore. We take care of all your legal needs – transactions, advisory, disputes.



Schellenberg Wittmer Ltd



Schellenberg Wittmer Ltd
Attorneys at Law

Zurich
Löwenstrasse 19
P.O. Box 2201
8021 Zurich / Switzerland
T +41 44 215 5252
www.swlegal.ch

Geneva
15bis, rue des Alpes
P.O. Box 2088
1211 Geneva 1 / Switzerland
T +41 22 707 8000
www.swlegal.ch

Singapore
Schellenberg Wittmer Pte Ltd
6 Battery Road, #37-02
Singapore 049909
T +65 6580 2240
www.swlegal.sg