

Legal and financial concerns: Czech Republic will not ratify UPCA any time soon

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The Czech Republic will not ratify the Unified Patent Agreement in the near future, even if the Unitary Patent system takes the hurdles of the Brexit and the German constitutional complaint. According to a Price Waterhouse Coopers (PwC) report on the impact of the patent package, which was commissioned by the national IP office, the Unitary Patent system could have negative financial consequences for Czech SMEs; moreover it may violate the Czech Constitution. Kluwer IP Law interviewed Karel Sindelka, partner and IP expert of the Czech law firm Sindelka Lachmannova, about the PwC report.

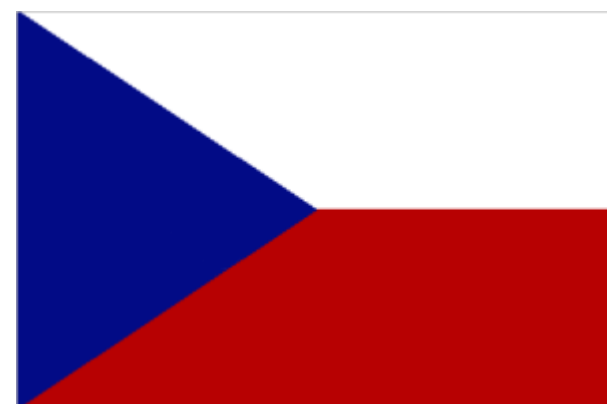
UPDATE: The report – only available in the Czech language – can be found [here](#).

The Czech Republic has signed the UPCA but should not ratify the agreement, according to the PwC report. Why this advice?

"Generally speaking, the report mentions three main reasons for adjournment of ratification, the first being the incompliance of the Unitary Patent package with the existing Czech legislation including potential collision with the Czech Constitution. The second is the negative impact on Czech SMEs which represent the most significant part of the Czech economy and would be largely in the position of passive recipients of the new Unitary Patent legislation. In this regard the report mentions that only one thousandth of all Czech SMEs seek patent protection. And thirdly, according to the report it is better to wait and monitor the practical functioning of the UPC for some time before taking a qualified decision whether or not to ratify the Unitary Patent package."

It seems logical that the report sees 'legal and constitutional hurdles'. The Brexit and the German constitutional complaint are the most obvious examples. But are there internal Czech issues as well, as was the case in Hungary, for instance?

"Indeed, there are several domestic legislative issues. To name a few of them, at present a European patent becomes effective only if it is validated, meaning that the patentee must provide a full translation of the patent claims and specification into the Czech language to the Czech Patent Office. Simply said, only European patents which are translated to the Czech language are valid in our country and can be enforced here.



This will be substantially changed with the new Unitary Patent, which will not require existence of Czech translations for the validity of future Unitary Patents and namely for their enforcement. The PwC report and also, for instance, the study of the Institute of State and Law of the Czech Academy of Science from 2010 say that this aspect could be seen as depriving Czech individuals and entities of their constitutional rights, as they could be penalized for violation of a Unitary Patent which they could not have gotten familiar with prior to the initiation of infringement proceedings.

There are serious concerns whether, due to the lack of Czech translations of Unitary Patents, the otherwise normally applied legal principle of 'Ignorantia iuris non excusat' could be applied and whether for instance a person infringing a Unitary Patent could be at all held criminally liable for such offence by the Czech criminal justice.

Similar concerns relate to the language of proceedings at the UPC. The proceedings at the court involving Czech individuals and entities would mostly not be held in the Czech language. Again there are concerns whether this is not a violation of the fundamental right to be heard and effectively defend yourself in your mother tongue, which is indirectly implied from the Czech constitution. This remains a problem despite the possibility provided by the UPC agreement to secure interpretation.

Last but not least there are serious concerns, which I fully share, that for instance if a Czech individual or entity is sued for alleged infringement of a Unitary Patent and, even though such entity would have arguments and evidence that such patent should have never been granted, it will not be able to effectively defend itself at the UPC due to the very high costs. The creation of financial barriers for an effective defence is seen by many in our country as a violation of the constitutional right of a fair trial and a denial of right of access to justice."

Could you explain more in detail what kind of problems SMEs will face under the UP system?

"Firstly, it is expected that the existence of the Unitary Patent, for which validation in the Czech Republic will no longer be necessary, will rapidly increase the number of patents protected in the Czech Republic. The validation requirement at the moment clearly represents a barrier that reduces the total number of validated European patents. According to the PwC report, in 2016 only 6.7% of all granted European patents were validated in the Czech Republic. This, I quote from the PwC report, will lead to increased competition on the market and restriction of space for innovation for Czech enterprises.

Secondly, the expected sharp rise in number of patents registered in our country will increase the costs the Czech SMEs will have to spend on patent freedom to operate clearance searches, licenses and translations.

Thirdly, there is an increased risk of court injunctions issued for the territory of all UPC member countries, an increased risk of court disputes and of the related rise of costs. The PwC report states that due to the very low patent activity of Czech SMEs, it is expected that Czech SMEs will mostly be sued at the UPC rather than actively sue themselves.

Fourthly, the SMEs will not have available patent documentation in the Czech language any longer and will often have to rely on inaccurate machine translations. This in my opinion leads to deterioration of one of the main ideas of the entire patent system: that in exchange for receiving a patent, inventors must publicly disclose their invention. The absence of Czech translations would thus unfairly discriminate those in our country or elsewhere that do not have a good command of the main European languages in which a Unitary Patent will be published. For a Czech engineer or inventor who does not speak any of these languages, the options to review and study disclosed inventions will be limited or simply more costly or difficult than in the present system."

Litigation at the UPC will not be beneficial for the Czech Republic, the PwC report concludes. Could you explain why?

"As I mentioned, there are two main reasons: high costs and the language barrier. Concerning the costs, I would start with the Czech individual/company being on the plaintiff's side. I dare to say that many of Czech patentees with exception of a few very big players will not have financial resources to enforce their patents (the amount of which will be anyway unproportionally low compared to other countries) at the UPC to cover the high court and attorney fees, so I expect there will not be many lawsuits filed by Czech companies and individuals.



To give you a few examples that were specifically mentioned in the PwC report, the proposed flat court fee for initiation of a patent dispute at the UPC is 11,000 EUR. In addition to this basic fee there will be a court fee based on the value of a dispute which amounts from EUR 2,500 (for disputes up to value of 750,000 EUR) to EUR 325,000 (for disputes with value exceeding 50 million EUR).

At present, in the Czech Republic the basic court fee per one verdict for instance for a cease & desist order is CZK 2,000 which is approximately EUR 40. There is no court fee based on the value of a dispute unless damages are sought.

As one can see there is a huge difference in court fees, a simple patent infringement claim seeking injunction preventing further offer and sale of a patent infringing product without damages will cost the plaintiff a court fee of 40 EUR in the Czech Republic, while at UPC at least 13,500 EUR. Even the proposed 40% discount for small and micro enterprises will not provide substantial relief.

This example does not take into account attorney fees, which will also be higher in case of the UPC proceeding and even though in case of success they could be recovered (at least partly), these costs will have to be incurred by a plaintiff at the beginning and in the course of the proceeding.

According to the PwC report, in terms of costs the situation looks even darker for a Czech company/individual which is sued for infringement of a Unitary Patent at the UPC. Typically, in response the sued company could be advised to demand cancellation of the Unitary Patent by means of a counterclaim but in that case, it will be required to pay a court fee of EUR 20,000. Many Czech companies/individuals will simply not be able to afford to pay such high court and related attorney fees even in cases where they are convinced that they do not infringe a patent or that a patent can be successfully invalidated. As consequence, purely because of the costs, they would be prevented from defending themselves in the proceeding at the UPC.

When we talk about the costs we have to also bear in mind the lower economic level of the Czech Republic compared to other countries from Western Europe. It is obvious that a 20,000 EUR court fee is relatively a much higher expense for a small Czech company than for instance a small German or French company."

In 2012, in a Deloitte report for the Polish government it was estimated that the Polish economy would suffer by some 19 billion euros in 30 years if the country participated in the Unitary Patent system. Did PwC make similar calculations about the consequences for the Czech economy?

"The PwC report limited its calculation of the impact of ratification on the state budget. According to the report, compared to the present situation the total revenues the Czech Republic would receive as result of the new Unitary Patent system could be higher, despite the expected decrease of income from annuity fees payments from validations of the existing European patents (which will be partly replaced by Unitary Patents). In all variants considered in the report, the effect of ratification of the Unitary Patent package on the state budget was expected to be positive. The effect on the Czech economy as such was not considered."

As you said, according to the PwC study Czech SMEs would be passive recipients of the new system, not its active players. Wouldn't that be true for other UP member states, who may have second thoughts about ratifying the UPCA?

"I do not wish to speculate. What I can say is that the patent package is undoubtedly beneficial and will save plenty of costs to the companies that are active in patenting and enforcing multiple patents in multiple jurisdictions. This, I think, is certainly a positive development. On the other hand, it is obvious and the report confirms that the new system will not be that friendly for SMEs from countries such as Czech Republic and in this respect, improvements aimed at achieving a more just balance are desirable."

The PwC report was published earlier this year. Has there been any reaction within the Czech Republic?

"According to the CZ IPO Annual report for year 2017, based on the discussions at the Ministry of Industry, it has been agreed to follow the recommendations of the PwC report and to postpone ratification. To me the ratification seems to be in limbo for the time being. As for the wider public including companies, I regret to say that most of them are not at all aware about the patent package and the consequences this might bring."