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### **Unitary Patent and Unified Patent Court – Is it all over or is there a Plan B?**

Reported by *Prof. Dr. iur. Tilman Müller-Stoy* and *Dr. iur. Rudolf Teschemacher*

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#### **What will become of the European Unitary Patent and the Unified Patent Court after the United Kingdom has declared its withdrawal? Is everything over now or do we proceed? And if we do, how?**

On February 27, 2020, a spokesperson of the British government made the following statement in the iam magazine:

*"[...] the UK will not be seeking involvement in the UP/UPC system. Participating in a court that applies EU law and bound by the CJEU is inconsistent with our aims of becoming an independent self-governing nation."*

The context is clear: The Unified Patent Court must apply EU Law, the CJEU is the highest instance in the interpretation of EU Law, and the Agreement on the Unified Patent Court (UPCA) explicitly provides for referrals to the CJEU. The United Kingdom is not willing to recognize the authority of the CJEU which was an essential as well as emotional aspect of the Brexit campaign. The quoted statement was followed by a plethora of hasty comments, going into different directions. They range from "It's all over" to the assessment that there will no longer be any fundamental hurdle in spite of the "withdrawal" by the United Kingdom, once the constitutional complaint in Germany will have been dismissed (which has not yet happened). Looking back will help provide with substance to any assessment of the actual situation:

#### **History**

More than 60 years ago, the European Patent System originated in the notion of unitary intellectual property rights for a unitary European market: The IP barriers at the borders of the member states of the Common Market which had the potential to be a barrier to the free movement of goods should be eliminated. Instead of a unitary patent for the Common Market, the European Bundle Patent became reality which does indeed span across the borders of the Common Market in territorial terms, but is limited to a central grant procedure content-wise, and the effects of which in the individual states equal those of a national patent.

However, the notion of a unitary patent was not given up. After the Munich Diplomatic Conference of 1973, at which the European Patent Convention was signed, the Conference of Luxembourg of 1975 followed, where the Community Patent Convention was signed by all nine contracting states of the ECC at that time. However, the latter was not ratified by all states, which would have been necessary. Two other diplomatic conferences also failed in 1985 and 1989. The main bones of contention were the issues of language and the court system. Since no solution was found under the Patent Convention, the Commission tried to create the Community Patent on the basis of an EU Regulation. However, this also failed in lack of the required unanimity.



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In 2012, there was the attempt to utilize the new procedure for enhanced cooperation, according to which creating EU Law for a group of states willing to cooperate is possible even if other EU member states are not willing; this attempt was the last one for quite a while. On this basis, the Bundle Patent was devised: two EU Regulations on the Unitary Patent and an agreement of international law in the form of the Unified Patent Court Agreement (UPC). The Regulations only come into effect in an EU member state if said state ratified the UPCA. Furthermore, the ratification by at least 13 states, including the three states in which there was the highest numbers of European patents during the year prior to the signing of the UPCA on February 19, 2013 – which were Germany, France and the UK – is required.

France already ratified the UPCA in early 2014. In the same year, the Patents Act was amended in the United Kingdom in order to make the ratification of the UPCA possible. Then, the political turmoil in the context of the Brexit Referendum followed. Its result in June 2016 first led to a state of shock. However, a supposed solution was soon presented: Before Brexit would come into effect, the United Kingdom and Germany would ratify the UPCA which would, as a result, become effective. Accordingly, Theresa May declared that the United Kingdom would play an active role as long as it is an EU member state, and announced that the UPCA ratification activities would continue. Jo Johnson, who would later become the IP minister, justified this stance by arguing that the UPC is not an institution of the EU and that the question whether non-member states of the EU could participate in the UPCA would be discussed during the Brexit negotiations.

In Germany, the legislation for the ratification of the UPCA was adopted by the Bundestag (German parliament) and the Bundesrat (legislative and administrative body of the German Federal States) in March and April of 2017. Only the signature of the German Federal President was lacking for full ratification. However, shortly afterwards, a bomb was dropped: One of the major German newspapers, Frankfurter Allgemeine Zeitung, reported that the German Constitutional Court had asked the German Federal President to not execute the ratification act, because a constitutional complaint had been filed against it. The Federal President followed this request so that the fate of the Unitary Patent was now very uncertain as two questions remained unanswered: Which consequences does the withdrawal by the United Kingdom have on the ratification and, potentially, the validity of the UPCA, and how will the German Constitutional Court decide? The United Kingdom was not disconcerted and ratified the UPCA in April 2018. The German government did not, declaring in the German parliament in August 2019:

*“The factual and legal consequences of a withdrawal with regard to the Agreement have to be examined and coordinated on a European level. This process of forming an opinion has not yet been concluded, not least because essential factors of the expected withdrawal are still unknown.”*

### Current situation

The United Kingdom will not participate in the system of the Unitary Patent and Unified Patent Court. Hence, the system will not come into effect, at least not in the form previously planned:

Assumptions that the “withdrawal” by the United Kingdom only serves the purpose of putting pressure on the Brexit negotiations seem rather absurd because the system had already played a marginal political role in the broader overall context of Brexit, which has probably not changed. This also means that the question of whether a non-member of the EU can be a contracting state to the UPCA has also become obsolete.

Neither the date nor the content of the decision by the German Constitutional Court can currently be foreseen, even if the reporting judge publicly said that he hopes for a decision in early 2020. What will be decisive is how fast the entire Court can agree on a decision.

### Prospects

What the specific way forward is supposed to look and what it *can* look like depends on political and legal issues:

In political terms, the question is how strong the interest of industry in a Unitary Patent System without the United Kingdom is. On the level of patent prosecution and administration, central advantages to users still are considerable cost savings because of the elimination of validation provisions that currently still exist and advantageous administration fees (to be adapted to Brexit), and a broad geographical scope of protection at the same time. On the level of patent litigation, the very central advantage is the avoidance of expensive and time-consuming parallel proceedings in several European countries, i.e. the possibility of obtaining a court decision valid throughout the EU, so to speak, in single proceedings before a single court.

For example, Siemens (represented by Beat Weibel, Chief IP Counsel) already expressed the following opinion vis-à-vis JUVE in May 2019:

*“I would certainly find it regrettable if the UK was not part of the UPC. For us, however, the Unitary Patent and the UPC are of great importance even without the UK. This is probably even more true for the Unitary Patent than for the UPC, because it gives us easier access to patent protection in Eastern European countries. In the UK, we can get patent protection through the old European patent procedure without any problems anyway. But we would very much like to cover Eastern Europe with the Unitary Patent.”*

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Another example is a survey by Managing IP (which is not clearly representative) of March 5, 2020, polling more than 100 in-house representatives, according to which 70 % of the respondents are still in favor of the system, even without the United Kingdom.

However, it is indeed doubtful whether SMEs agree to this assessment, because of the expected high costs of the Unified Patent Court System.

At any rate, with regard to the further course of action, the Chair of the UPC Preparatory Committee, Alexander Ramsay, explained:

*“Once Germany will be in a position to ratify the UPC Agreement and the Protocol on the Provisional Application, arrangements will be made to deal with the practical implications of the UK’s departure.”*

This seems to be slightly understated. What is being discussed are not merely practical consequences, but mainly ways of how the UPCA may be adapted to fit the changed circumstances in a legally feasible manner. Article 87 of the UPCA is not tailored to this. Admittedly, paragraphs 1 and 2 of the provision grant the Administrative Committee some authority for revising the Agreement, but not earlier than seven years after it entered into force, and for the purpose of harmonizing the Agreement with international Treaties or EU Law. The first aspect is not relevant and as for the second one, the question of whether a provision on the revision of an agreement may be used to put the agreement into effect at all is highly disputable. As the decisions of the Court are to be enforceable in all participating states, the

Court should only be established on a legal basis which cannot be challenged.

Independently thereof, each contracting member state may block an amendment pursuant to Article 87(1)/(2) by declaring that it does not wish to be bound under para. 3 by the decision. So, in factual terms, there is a unanimity requirement for each amendment by the Administrative Committee. In this context, heated argument is to be expected as to the question which city will be heir to London in the capacity as a seat of one of the sections of the Central Division. Milan was the first to throw its hat in the ring, but Italy has not really strengthened its position by the fact that the government obviously favors Turin. Others advocate seizing the opportunity to pool the entire Central Division in Paris, and the Netherlands are also being discussed as an option. Others will most probably also claim their right to be considered as a location. What would also be an obvious solution would be strengthening the location in the country in which more patent infringement proceedings are conducted than in all other participating states together, namely Germany. So far, Germany has apparently exercised humble restraint in this issue which is not untypical for international negotiations. At any rate, the fact that London is no longer a location for one of the sections of the Central Division shows that Pandora’s box does not have to be opened regarding the UPCA; it is already open.

And what remains a mystery is: Will the German Constitutional Court tell the legislator to do some homework? Insofar as the deficiencies in the parliamentary procedure when adopting the acts complained about in the German constitutional complaint are

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concerned, remedying them on short notice is probably possible. This may not be the case with respect to the position of the UPC judges. In this context, two recent decisions by the German Constitutional Court regarding the issues of judicial independence and the separation of powers are to be mentioned: Firstly, the decision in the proceedings 2 BvR 780/16 which has received much attention and rules out the reappointment of judges appointed for a fixed term, after their term ends, and secondly the decision in the proceedings 2 BvR 1961/09 regarding the legal protection from intergovernmental institutions, which decision postulates an adherence to the rights vested in the German Constitution when sovereign powers are transferred and takes into consideration the guarantees of effective procedural protection and fundamental rights in Article 6 (1) of the European Convention on Human Rights in exercising the transferred powers. What has to be added is that the Charter of Fundamental Rights of the EU also is an examination standard in so far as the application of EU Law is concerned (see decision in proceedings 1 BvR 276/17). This particularly includes the two Regulations on the Unitary Patent (see Art. 24 (1) a) UPCA) which means that it has to be examined whether the available legal protection meets the standard of the guarantee of an effective remedy before an independent tribunal in Article 47 of the Charter of Fundamental Rights of the EU.

In parallel to the constitutional complaint against the ratification of the UPCA, four older constitutional complaints for insufficient legal protection from decisions by the Boards of Appeal of the EPO are pending in Germany. In appeal proceedings, the Boards of Appeal decide on the revocation of Unitary Patents and, thus, are integrated into the Unitary Patent System. Therefore, the members of the Boards of Appeal also have to meet the requirements for judicial independence in terms of fundamental rights and under EU Law. In those proceedings, objections against the personnel independence of the members of the Boards have been filed. The aspect of a re-appointment after the five-year appointment period has ended is particularly controversial in this context, because such a re-appointment has been subject to a positive performance evaluation, which also is decisive for a potential promotion, ever since the restructuring of the Boards of Appeal of the EPO.

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### Conclusion

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Since the UPCA has to be revised at any rate, the opportunity could - and should - be seized to make the Unitary Patent System even more attractive. The opt-out / opt-in regulations have been criticized as failed in terms of legislative formalities. Sound grounds for the compulsory inclusion of European bundle patents in the jurisdiction of the UPC are lacking. In this respect, free competition between the UPC and the national courts would probably be a better solution, and the UPC would prevail if the efficiency of its proceedings and the expertise of its judges are convincing. Otherwise, users would be forced to find indirect ways of maintaining access to national courts. The draft of the rules of procedure could be made leaner by eliminating elements which serve British concepts rather than continental European ones. This might result in a simplification of the procedure and, thus, in cost reductions. In this context, the caps on reimbursable attorney fees have been criticized, in particular, which seem to be hardly acceptable to SMEs. Regarding the Unitary Patent, the scope of the Unitary Patent, which has become more limited after Brexit, would need to be reflected in the amounts of renewal fees. Patent holders would have to pay for national renewal fees in the United Kingdom and, thus, their burden would need to be reduced.

The consensus among the contracting states, according to which no contracting state is to receive less shares in renewal fees than it would receive without the Unitary Patent, which consensus has been reached at the expense of users, also needs to be re-examined. This is because the contracting states do not need to make any expenditures on the management and maintenance of the Unitary Patent. There are no reasons why national budgets should be subsidized via the renewal fee share in the Unitary Patent.

At any rate, even if the German Constitutional Court was to dismiss the constitutional complaint soon, there would still be many aspects that need to be considered and clarified, before a version of the UPCA exists which can be considered for ratification. This is expected to take quite a while.