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Brexit Consequences for Patent Litigation

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No Farewell for the Unified Patent Court?

Brexit - Consequences for Patent Litigation

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The result of the referendum has a hit everybody by surprise. It has reshaped the political schedule for the upcoming three years and will significantly alter the perception of Europe. An immense work load is ahead for both the European Union as well as of the United Kingdom. The United Kingdom will have to look into each and every European regulation. Furthermore, any international agreement to which the European Union is a party will have to be renegotiated by the United Kingdom.

Intellectual Property is certainly an important part of the legislation of the European Union and the United Kingdom. Yet, we have to expect that the topic is among the last the negotiation groups on either side which are currently built up will address. There are definite changes, however, we can already foresee now. Union Trademarks and Community Designs will cease to exist for the United Kingdom. New rules will have to be found for the legal fate of such intellectual property rights already existing. New rules will be needed for court proceedings currently pending and pertaining to territories of either side of the channel. The question of token use will have to be addressed.

Since European patents are no instrument of the European Union one is tempted to assume that little will happen in the field of

patent litigation. The impact on the Unitary Patent and the Unified Patent Court, however, is significant. In the end this is even true for litigating European Patents of the traditional kind.

1. Basics of Brexit

The question which has been put forward to the British populace (that is including the populace of Northern Island) was rather simple: "Should the United Kingdom remain a member of the European Union or leave the European Union?" 52% voted for leave. Only after the result became public people truly started to consider the legal effect of the result. In fact it is not binding for the British government. Surprisingly enough, however, it appears to be up to the British government to decide alone. The unwritten British constitution does not appear to provide for British Parliament to be involved and in fact the new Prime Minister Theresa May has indicated to not ask British Parliament.

On the EU side only as of the revision of the European treaties in Lisbon Article 50 of the Functioning of the European Union (TFEU) provides for a mechanism how a European member state can leave the European Union:

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218 (3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not

participate in the discussions of the European Council or Council in decisions concerning it.

A qualified majority shall be defined in accordance with Article 238 (3) (b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

The United Kingdom will have to notify the European Council (consisting of the heads of state of the member states) of its intention to leave the European Union. This notification will trigger a two year deadline. During this deadline the parties (by then the European Union on one hand and the United Kingdom on the other hand) are supposed to negotiate an agreement providing everything which is necessary to ensure a swift change of the legal status of the United Kingdom. Upon the expiration of this deadline the United Kingdom will automatically cease to be a member state of the European Union. There are little possibilities to alter this schedule. The first possibility is the start of the two year deadline. The deadline will only start as of the notification. This is not the referendum itself but rather a separate declaration to be submitted by the British government to the European Council. The new British Prime Minister has already announced to take her

time with forwarding such notification (much to the dismay of the other member states). Rumor says that the notification will be forwarded by the end of 2016 or rather - which is more likely - by the beginning of 2017. The possibilities to extend the deadline are limited. Indeed the parties can agree on an extension. Yet, the extension will only be possible with a unanimous vote of the European Council. Irrespective how negotiations proceed, in 2 ½ year there will be a number of head of states in the European Council who are confronted with movements in their own country which want to leave the European Union. They have a significant interest to show that leaving the European Union is not a success. Thus, little lenience can be expected from them. It is likely that there will be at least one head of state in the European Council which will vote against an extension of the 2 year deadline.

Thus, whether with a good or with bad result, it is likely that by the beginning of 2020 the Brexit will have taken place.

2. Consequences of Brexit - General

The United Kingdom aspires to have full access to the Common Market regarding both movement of goods as well as capital. There are, however, not only two but four freedoms, namely the freedom of services and the freedom of people to move and settle within the European Union. While all four freedoms are key to the EU if access to the

Common Market is supposed to be granted, it is in fact the latter freedom which the United Kingdom wants to avoid. To stop immigrants (also from the European Union) was one of the reasons the referendum was started in the first place.

Currently not only the member states of the European Union enjoy the benefits of free movement of goods and capital. Due to the Agreement on the European Economic Area Iceland, Norway and Liechtenstein enjoy these rights as well. Even Switzerland has obtained such rights by bilateral agreements. None of them, however, have been allowed to cherry pick the freedom of goods and capital only. All have to provide the other freedoms as well, i.e. especially the freedom of free movement of people. What is more, those which have been granted with the four freedoms were also expected to pay their share for the functioning of the Common Market. Norway is said to pay 80% of what they would have to pay if they were member of the European Union. Hence, the United Kingdom would save about 20 % if having the status of Norway. A hardly appealing status for the British government. While not having to accept people from the European Union in the United Kingdom was the first objective of those voting for leave, not paying to Brussels was certainly the second objective.

Hence, having a position like Norway Switzerland Liechtenstein or Iceland appears to be beneficial on first sight. It is rather likely,

however, that this position would not be well received by the British people. They might feel to having been put in a position which is quite similar to the current position with the exception that the United Kingdom has no longer a say in the European Union.

The United Kingdom can of course have a status like any TRIPS member, a status which has been coined derogatively a "Bangladesh-Status" that is paying tariffs and trades for importing goods into the Common Market and to not enjoy a free movement of capital.

Quite obviously the United Kingdom thrives for a status sui generis which allows the industry to maintain their current position in the Common Market, does not deprive their financial hub London of generating jobs and income for the British government, and does not involve payments to Brussels. It is yet unlikely that this will be the result of the Brexit negotiations. Too many other states would try to follow suit.

3. Consequences of Brexit - Trademarks and Designs

As of Brexit Union Trademarks will no longer be valid in the United Kingdom. Thus, a solution will have to be negotiated ensuring protection in the United Kingdom as well. It is likely that as for the United Kingdom a national trademark will be offered enjoying the priority of the Union Trademark. The same will probably apply for Community

Designs. Further solutions will be needed for issues like use of Union Trademarks. Those Union Trademarks which have only been used on the continent might be transferred into Union Trademarks and national British trademarks. However, the British trademark would be immediately invalid for not having been in use for over 5 years. Hence laws will have to be enacted in this respect as well. Transitional provisions will be needed for all pending court proceedings. Especially in Germany, it is quite common to seek injunctive relief and damages not only with respect to the territory of Germany but for all of the European Union - as is provided in the Regulations on Union Trademarks and Community Designs.

UK personnel at the EUIPO will probably no longer be welcome. UK lawyers will no longer be admitted to EUIPO. Hence, we will see some more mergers of law firms. It is said that the number of applications for taking the Irish bar exam (which is easier for British lawyers than for Continental lawyers) has already significantly increased.

License agreements will have to be altered regarding territory, currency, exhaustion and so forth. A British venue for litigating controversies of license agreements pertaining to Union Trademarks or Community Designs will less likely be accepted.

4. Consequences of Brexit - Traditional European Patent Litigation

In principle, traditional European patent litigation is in a comfort zone. The European Patent Convention (EPC) is not a body of European Union law. Thus, it is not affected by Brexit. Traditional European Patents will continue to be granted by the European Patent Office and will continue to have the effect of national patents in the respective member states of the EPC (that is the European Patent Convention and not the European Union). Yet, there are some issues which have to be taken into account.

Scope of Protection

British law will no longer be tied to EU legislation. The biotech directive, so far an ongoing object of discussion and even quarrel, will be irrelevant for the United Kingdom. The latest changes to UK law which were also directed to life science are (or rather were) subject to the UPC agreement getting into force. The enforcement directive, which actually deals with the rights conveyed to an IP (and therefore also patent) owner, will no longer apply. The United Kingdom will be in the position to go its own way.

British judges have met with their European counterparts on numerous occasions, for instance every year in Venice. Such meetings were meant to obtain a common understanding especially of the scope of

protection of traditional European Patents. Article 69 EPC stays as it is. Thus, in principle, the objective should be unaltered. Without the European Union as a connecting band, however, independence will necessarily increase.

Exhaustion

It is well-established that putting a product into commerce with the consent of the patent owner will result in an exhaustion of the respective patent rights not only for the territory where the product had actually been put into commerce but for the entire territory of the European Union. Contrary to trademark law this result has not been achieved by an exhaustion in a dogmatic sense but rather by application of the free movement of goods principle. Nonetheless, most practitioners and even most courts use the term "exhaustion".

With the United Kingdom leaving the European Union this principle will no longer apply. Hence, a product put on the market in the United Kingdom with the consent of the patent owner might still constitute patent infringement if being shipped to Germany or France. The same of course applies the other way round. As a result, license agreements can be structured quite differently possibly also enjoining a licensee from passive sales in the respective other territory.

The validity of running license agreements can no longer be trusted. There will be no

longer any Block Exemption Regulation under Art. 101 TFEU. Neither will the guidelines to the Technology Transfer Regulation apply.

FRAND-Litigation

The decision of the CJEU in ZTE vs. Huawei on Art. 102 TFEU and FRAND has made many happy in the telecom industry (and cost some litigators part of their playground). Finally, there had been some instruction on how to proceed with standard essential patents. It would be good if British High Court as well as the House of Lords gave deference to this decision under whatever cover. Yet, there is no certainty anymore. Rather, all is back to square one. British national law will apply.

Competence

The regulations dealing with the competence of courts will no longer apply. The decisions of the CJEU will no longer be binding. All will be handled by the respective national law. This especially pertains to the Italian torpedo. Cross-border injunction is dead - if it ever was properly alive.

Service

Serving from Germany to the United Kingdom and from the United Kingdom to the continent will be governed by the respective Hague agreement and not by the EU regulations so far applicable.

Security

The United Kingdom being part of the European Union, security for reimbursable attorney fees and court costs was never to be provided. After Brexit this may alter. A British entity litigating for instance in Germany might have to provide a security like most US entities have to provide.

5. Consequences for Unified Patent Court and Unitary Patents

Ratification of the UPC agreement was about to take place on the day of the referendum. 10 out of 13 countries had ratified and submitted the ratification documents in Luxembourg. In the meantime the Netherlands have submitted their ratification instrument as well. Thus, we are down to two other states which were meant to be the United Kingdom and Germany. One might think that it is not too difficult to find another country ratifying (since Germany is still considered the “no-brainer”). Yet Article 89 (1) UPC Agreement causes the problem:

This Agreement shall enter into force ... on the first day of the fourth month after the deposit of the thirteenth instrument of ratification ... **including the three Member States in which the highest number of European patents had effect in the year preceding the year in which the signature of the Agreement takes place**

These three Member States are France, Germany and the United Kingdom.

Hence, as long as the United Kingdom is member of the EU it needs to ratify to get the Unified Patent Court started. Since the Unitary Patent will only come into existence with the UPC, so far the project needs the United Kingdom. Once the United Kingdom has left the EU, the three Member States with the highest number of European Patents will be the Netherlands (which has already ratified) or Italy (where the ratification has at least past the chamber of parliament on September 15 this year). Thus, as it stands the project might be on hold until 2019.

5.1 Solutions - Gossip

There are a number of solutions to the dilemma currently discussed in legal literature or the floors of offices.

No Brexit

Some think, quite simply, that there will be no Brexit at all. The thought is based on the assumption that it has become clear in the aftermath of the referendum that there are a lot more negative consequences for the United Kingdom involved than those who have lobbied for a Brexit have told the people. The implementation of the “no-Brexit-idea” is supposed to be caused by Parliament namely by a vote of parliament to the contrary. Indeed the majority of the members of Parliament would have voted for a stay if they had been asked instead of the people. Yet firstly, it is doubtful that the members of Parliament would still vote this way in light of

knowing the referendum and secondly, members of Parliament will not be asked for a vote in the first place. As an alternative the “no-Brexit-idea” could be brought to life by a new election. According to this teaching the controversy about Brexit will be that intense that there will be a new election in the United Kingdom which includes the topic of a Brexit again and results in an overruling of the referendum. As it stands, however, there seems to be no uproar to statements like “Brexit means Brexit”. For the same reason there will be no second referendum.

United Kingdom ratifies

Still more plausible is the idea that the United Kingdom decides to ratify the UPC agreement despite the referendum. Indeed the UK might feel obliged not to torpedo the project. It has put a lot of effort into bringing it to the current stage and has been and is investing money and time of its civil servants. Should the UK follow that route it could simply leave the agreement in the course of the exit agreement to be entered into under Article 50 TFEU. Even without Article 50 TFEU such leave would be easy. The Vienna Agreement on international agreements provide for such a possibility. In fact little would be necessary given that British Parliament has put everything in place to allow its government to submit the ratification document in Luxembourg.

Yet, doing so would come close to political suicide. There would be little understanding for an idea of joining in order to leave. Even if there were some understanding, there would be little advantage for the United Kingdom for doing so but to display an act of loyalty to the European Union. Given that the act of Brexit does not show any loyalty, it is hard to believe, however, that such a concept would overrule what is best for the British government and the situation at hand.

Art. 87 (2) UPC Agreement

Article 87 (2) of the UPC agreement

The Administrative Committee may amend this Agreement to bring it into line with an international treaty relating to patents or Union law.

provides for the possibility to have the Administrative Committee of the Unified Patent Court to amend the UPC Agreement to bring it in line with Union law. One could indeed argue that the UPC Agreement as it stands makes little sense if it provides on one hand that only EU member states can ratify the agreement but on the other hand states that a country must ratify which is about to leave the European Union. The absurdity becomes even clearer by Article 7 UPC Agreement. Its paragraph 2 provides that there is a section of the central division in London:

The central division shall have its seat in Paris, with sections in London and Munich.

The cases before the central division shall be distributed in accordance with Annex II, which shall form an integral part of this Agreement

I.e. the country which must not be a member of the UPC agreement shall host the division of the court. The problem is that Article 87 requires an Administrative Committee. This Administrative Committee does not yet exist. It requires the existence of the Unified Patent Court. This Court, however, is to be set up by the Agreement. It is simply too early to bring Article 87 (2) of the UPC Agreement into operation.

5.2 Real Solutions

There are only little real solutions part of which the have to be still coined as “creative”.

Let's call the whole thing off

Indeed considering the entire UPC package to be failed is not an unthinkable question. It would merely share the fate of so many other projects with the community patent of the 70s being only the closest to the one at hand. There are even protagonists of the current project like Kevin Mooney (who has worked constantly over the last 3 years to establish the draft of the rules of procedure for the new court) who has publicly mentioned that possibility.

Then, however, the political will to bring the project to a positive end seems to be substantial. The Netherlands have decided

on ratification less than a week after the result of the referendum and have submitted the ratification instrument to Luxembourg in the meantime. Italy had its first chamber of its Parliament decided on ratification even now that discussions about the project have flared up. Seminars have less attendance but continue its programs. Professional societies continue to comb the more detailed rules on evidence taking. And finally even government officials state that giving up the project is out of the question. Hence, for the time being the referendum has not been the end of the story.

Sit and Wait

The currently most probable variant is to simply wait. With Italy being the likely candidate for the 12th ratification (with parliament having shown its intent to move forward despite referendum) it is only Germany left for the needed 13th ratification. For quite some time now Germany has been designated to hold back the ratification instrument until the court is ready to operate. With Germany ratifying it will then be another 4 months for the court to open its gates.

Revision of UPCA

Another rather simple solution to get the Court up and running - and not to wait for 3 years is to revise the UPC Agreement. An alteration pursuant to which there is no longer language of a section of the central division in London and an alteration of Article 89 UPC

agreement to "... Including 3 out of the 4 member states in which the highest number ..." Should not pose a problem - in principle. It cannot be ruled out that the moment the UPC Agreement is open for revision the many flaws, mistakes or just options for enhancement will be pointed out by the many interested circles. Revision of the UPC Agreement by the EU member states will rather take longer than to wait for the Brexit to take place.

5.3 Creative Solutions

There are 2 solutions which can be labeled as more creative. Neither of them, however, appears to have much prospect.

UPC with UK - The way forward

Those having been involved in the creation of the Court from the very beginning like Tilman do not like the idea of the Unified Patent Court without the involvement of the United Kingdom.

The idea starts with what others consider to be impossible namely that the United Kingdom deposits the ratification instrument. Naturally under the plan Italy and Germany will follow suit resulting in the UPC Agreement entering into force.

Subsequently the Administrative Committee is supposed to state that Article 84 UPC Agreement (pursuant to which ratification of the UPC Agreement is only open to EU

member states) is not a bar to a contractual member state maintaining its contractual position if it leaves the European Union.

As a third step the Administrative Committee establishes a protocol containing an agreement of the UPC member states providing for an extension of the unitary effect of the Unitary Patent to the United Kingdom under Article 142 EPC. This way the UPC member states and the UK would declare to have their patents to be granted as one Unitary Patent.

Both the understanding that a contractual member of the UPC Agreement will not lose its contractual position by leaving the European Union as well as the agreement to have patents between UPC member states and the UK granted as unitary patents shall be covered by the exit agreement between the European Union and the United Kingdom.

With the exit agreement being Union law and this exit agreement providing that a non-EU member can stay a UPC member Article 84 of the UPC agreement is no longer in line with EU law. Thus, the Administrative Committee can now amend Article 84 UPC agreement due to its powers provided by Article 87(2) UPC Agreement.

Irrespective of whether or not the plan is legally feasible, it will not come into force for two main political reasons. Firstly, as stated above, the United Kingdom will not ratify the UPC Agreement. Secondly, however, and

more important, the adherence of the United Kingdom to the UPC Agreement will necessarily involve that the United Kingdom fully accepts decisions of the CJEU in the context of the UPC Agreement. Indeed the UPC will apply EU law. If in doubt as to the interpretation of Union law it will have to submit legal questions under Article 267 TFEU to the CJEU. The CJEU will decide such legal questions with binding effect for the Unified Patent Court. There is no way out of this consequence since the CJEU itself has stated that the UPC Agreement involving non-EU member states will only be in line with Union law if the CJEU has the last say. It is simply not conceivable that the United Kingdom will consent to such structure.

UK being kicked out

There is the idea that with the moment of notification of the intent to leave the EU, the UPC Agreement suffers from a fundamental change of circumstances. As a result the parties to the UPCA Agreement may theoretically cancel the adherence of the UK to the UPCA pursuant to Art 62, 65, 67 of the Vienna Convention. The idea looks bright but still needs thorough planning. Sadly enough there is no Agreement yet. Hence, there are no parties to the agreement but those who have already ratified. It would be those who would have to terminate the agreement with respect to the United Kingdom. Then again, however, such declaration would not change the wording of the draft of the UPC

Agreement. Anyhow, the United Kingdom does not even plan to become a contractual member state to the UPC Agreement.

The idea rather seems to be to construe the UPC agreement in light of a notification of intention to leave. Thus, so the idea, the UPC Agreement including its articles pertaining to coming into force of the Agreement are to be applied in a way as if the United Kingdom were no longer member of the European Union. This is an ambitious interpretation if an exit agreement is still to be negotiated.

6. Expectations

Many have expressed expectations. Alexander Ramsay, the head of the preparatory committee has declared that there will (merely) be a delay. The website of the Unified Patent Court has stated that the application term for the recruitment of judges will not be extended. Margot Fröhlinger (Principal Director Patent Law and Multilateral Affairs, EPO), a driving force and former member of the Member of the EU Commission has stated: "We have a plan B". Even the British patent office has declared to continue to act according to schedule (quite obviously, however, without ratifying). Finally other states act as if there were no doubt as to the start of the Unified Patent Court.

Germany will very likely push the project. The least reason will be that German attorneys might benefit from the new situation. British lawyers have been considered to be significant competitors because of their language as well as their being acquainted with those parts of the Rules of Procedure which have given more deference to UK law. With this competition gone German litigators as well as German local divisions will be more sought after in future cases.

Finally, there is a strong political issue to be considered: Everybody wants the European Union to continue as a strong entity and irrespective of whether the United Kingdom is a member state or not. If we allow the argument "not worth without UK" to rise in the field of the UPC, it will be heard in other areas as well.

And indeed the argument that the project is worth less without the United Kingdom is wrong. With the United Kingdom not being a member of the UPC, annuities for Unitary Patents will have to be reconsidered. Should the annuities for Unitary Patent be as low as annuities for 3 EPC member states, it might well be a strategy to settle for one Unitary Patent and trust that having no patent in the United Kingdom will not be worthwhile for counterfeiters to manufacture.

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