

## Impact on the long-awaited European Unitary Patent project – an update

December 2016

### Issue in focus

In February 2016, we published [a paper](#) discussing the potential impact of the United Kingdom leaving the European Union on the long-awaited Unitary Patent and Unified Patent Court (UPC) system. On 23 June 2016, the UK electorate voted (by a margin of 51.9% to 48.1%) to leave the EU. The result of the referendum, and several other developments since, threw the future of the Unitary Patent project into serious doubt. To the surprise of many, however, on 28 November 2016 the UK Government indicated that it will proceed with ratification of the underlying UPC Agreement (UPCA). In this paper we summarise these developments and the likely ramifications.

Notwithstanding the Government's announcement, there remain several legal and political question marks regarding the UK's ongoing involvement in the UPC system.

This article is one of a series of specialist Allen & Overy papers on Brexit and the UPC. To read these papers as they become available, please visit:

[www.allenoverly.com/brexit](http://www.allenoverly.com/brexit) and  
[www.allenoverly.com/upc](http://www.allenoverly.com/upc).

# Analysis

## Ratification of the UPC Agreement

On 28 November, following a meeting of the EU Competitiveness Council, Baroness Neville-Rolfe (the UK Minister for Intellectual Property at the time)<sup>1</sup> announced that the UK Government will “proceed with preparations to ratify the Unified Patent Court Agreement...over the coming months.”

The UPCA will enter into force four months after ratification by at least thirteen signatories (which must include the three contracting states with the most European Patents in force during the preceding year – currently Germany, the UK and France). The UPCA has now been ratified by 11 states. Germany has not yet ratified, but the process will now be accelerated with a view to ratification in parallel with, or just after, the UK. The process is also well-advanced in Italy and Lithuania. Therefore, the UK’s ratification, if it happens (for the moment the announcement is merely in relation to UK “preparations” to ratify), will all but put the UPC system into effect. The UPC Preparatory Committee is expected to publish in 2017 a revised timetable for the opening of the UPC. Assuming that the UK and Germany ratify during the spring of 2017, we would expect the UPC to open towards the end of 2017 (at the earliest), including a Central Division in London to deal with cases relating to chemistry and life sciences. The deadline for applications to act as UPC judges has closed, and the selection and training processes are ongoing.

Many UK-based IP stakeholders were surprised by the UK Government’s announcement. It did not seem to be in the interests of the UK to ratify given the current uncertainties surrounding Brexit. There remain substantial questions about the UK’s ability to remain within the UPC system after Brexit, which we discuss below. If the UK is not able to remain a member of the UPC system (whether for legal or political reasons, or a combination of the two), the UK will have essentially created a powerful rival to the English patent court, which is currently seen as one of the leading European

patent courts. Arguably it was in the UK’s interests to wait and to fully explore how a new UPC settlement could fit into broader “soft” Brexit negotiations. The UPC is one of the few areas in which the UK obviously has leverage. The interrelationship between the UPC and the EU single market is clear, and the UPC system is a project that has required substantial investment of many types (political, financial and emotional) over many years. There is clearly substantial political will among UPCA signatories to see the UPC system come into effect. Some had expected to see the UK hold over ratification and to use this as a bargaining chip in the upcoming negotiation of the broader UK exit package. Of course, the UK may consider that it can use the question of the UK’s continued involvement in the UPC on or after Brexit as a negotiating tool for its desired form of Brexit.

A number of other UPCA signatory states took the view that if the UK was to trigger Article 50(1) of the Lisbon Treaty (TEU) without having ratified the UPCA, from that point the other signatories would be entitled to go ahead without the UK under the “enhanced co-operation” procedure. It appears that Sweden, Belgium, Luxembourg and the Netherlands, with the support of Germany, tabled a paper to this effect at the recent meeting of the EU Competitiveness Council. It seems the threat of a viable “Plan B” was used to justify an undisclosed deadline for the UK’s decision on ratification, which in turn undoubtedly prompted the above response from the UK Government. Notably, it does not appear that the UK has received any formal assurances that other UPCA signatory states will do what is necessary to ensure that the UK can remain a member of the UPC system after Brexit. The UK may be gambling that the long-term success of the UPC system is sufficiently dependent on the UK’s continued membership to mean that the other UPC states will do what they can to ensure the UK’s ongoing participation post-Brexit. This will only be reinforced if the UPC has been successfully operating for a year or more before Brexit.<sup>2</sup> Certainly, it would be better for the short- and medium-term success of the UPC system if patentees can be reassured that, after Brexit, the UK will continue to participate in the UPC

<sup>1</sup> As of 22 December 2016, Lord Prior of Brampton has replaced Baroness Neville-Rolfe as junior minister in the Department for Business, Energy and Industrial Strategy. His previous public statements indicate that he is pro-single market and that he regrets the result of the June 2016 referendum.

<sup>2</sup> On 7 December 2016, the UK Parliament voted to back the Prime Minister’s plan to trigger by the end of March 2017 Article 50 of the Lisbon Treaty to exit the EU. This is the first time that the UK Parliament has backed the Government’s Brexit timetable which, if it takes place, would lead to the UK being out of the EU by the end of March 2019.

and Unitary Patents will subsist and be enforceable in the UK, or that parallel national UK patent designations will come into existence upon Brexit.

## Can the UK remain in the Unified Patent system after Brexit?

There is doubt whether the UK, once it leaves the EU, will be able legally to remain within the UPC system. The main source of this doubt is Opinion 1/09 of the CJEU. This was the CJEU's response to a request by the Commission for a ruling on the compatibility of an earlier draft of the UPCA with EU law. Opinion 1/09 is not entirely clear. A possible interpretation (which is preferred by the Commission) is that the CJEU determined that only EU Member States are able to participate in the UPC system. The core of this interpretation is that the UPC will be asked to interpret and apply EU law, and it is not compatible with EU law for this task to be conducted by a court which is unable to refer preliminary legal questions to the CJEU (to ensure a consistent approach), e.g. in a post-Brexit UK.

A strong counter-argument is advanced by two English lawyers, Richard Gordon QC and Tom Pascoe, in an extensive opinion produced for the IP Federation (IPFed), the Chartered Institute of Patent Attorneys (CIPA) and the Intellectual Property Lawyers Association. Gordon and Pascoe argue that the focus of Opinion 1/09 is instead that any state which is part of the UPC system must ensure three things: (i) respect for the supremacy of EU law; (ii) the ability to bring proceedings and claim damages for infringement by an EU Member State; and (iii) legal uniformity through preliminary references to the CJEU. In theory, any state which meets these minimum criteria can be part of the UPC club.

Assuming Gordon and Pascoe are correct, how easy would it be for the UK to put in place these safeguards? On the UK side, it would be possible for Parliament to legislate to subject the UK to the jurisdiction and supremacy of the CJEU so far as this relates to the UPC. Some in the UK, however, doubt whether the CJEU would accept jurisdiction from a UPC court in an ex-EU UK. Some form of bilateral agreement between a post-Brexit UK and the EU will be advisable to ensure the CJEU has the necessary jurisdiction. There is significant debate on how such an agreement would be negotiated and concluded. From the UK

perspective, it seems that an agreement of this nature would change an essential character of the function of the CJEU, which would require a full Treaty amendment supported and ratified by all Member States. If such agreement falls short of that threshold, it could be made part of the wider negotiation of post-Brexit terms under Article 50(2) TEU (which will be concluded by the Council acting by qualified majority, following the European Parliament's consent). Others in Europe, however, take the view that a UPC court – even if based in an ex-EU UK – still remains an international court based on the UPCA. Therefore the fact that under the TFEU (the Rome Treaty), the CJEU is only empowered to hear infringement proceedings and preliminary references from the courts of EU Member States should not present an obstacle. A known example of non-EU Member States subjecting themselves to CJEU decisions is the Lugano Convention 2007 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. A protocol ensures uniform interpretation of this convention with the equivalent Brussels Regulation and its interpretation by the CJEU.

The UK would also need to enter a similar agreement in relation to the Unitary Patent Regulation, which underpins the creation of the new Unitary Patent. It is worth noting that participation in the Unitary Patent system is conditional on submission to jurisdiction of the UPC. So it will not be possible for the UK to have Unitary Patents without the UPC. Additionally, some consequential changes to the UPCA will be necessary. These would need to be negotiated directly with all signatories to the UPCA. While the amendments would mainly be technical in nature (to enable UK nationals to act as UPC judges, and to amend references to “contracting Member States”), we expect that their negotiation may be less straightforward. Although the UPC Preparatory Committee and some UPCA signatories (most notably Germany) have made clear their desire for the UK to remain part of the UPC project, there are others (e.g. Italy) who have seen their opportunity to wrest the Central Division intended for London away from the UK, and may make negotiations difficult. The UK will also need to accede to conventions on jurisdiction and enforcement which are compatible with an amended UPC regime (whether the recast version of the Brussels Regulation<sup>3</sup> or Lugano).

<sup>3</sup> (EU) 1215/2012.

This will require the agreement of the contracting parties to the relevant convention, and may not be a simple matter.

Of course, aside from the legal complexities, there is a significant political dimension. One factor in the decision of the UK electorate appears to have been the desire to “take back” sovereignty from EU institutions. An agreement with the EU which meets the CJEU’s minimum safeguards will require deference to the CJEU in relation to questions of antitrust, fundamental rights under the Charter of Fundamental Rights of the European Union and specific EU patent rules (e.g. under the Biotechnology Directive and the SPC Regulation). We question whether giving the CJEU such sovereignty will be compatible with the broader political dimension of Brexit, although it is possible that patent law is such a technical area that any deference to the CJEU may go unnoticed. It seems that the UK Government may be taking such a calculated risk. More generally, motivated in part by dedicated Brexit supporters both inside and outside of Government, there is now a realistic possibility of a “hard” Brexit. If the UK does decide unilaterally to withdraw from the EU without attempting to negotiate terms under Article 50(2), there will be no chance to put in place the legal regime necessary for the UK’s continued participation in the UPC.

A final complication is the possibility of “transitional arrangements”, raised by those supportive of a “softer” Brexit such as the Chancellor of the Exchequer, Philip Hammond. Such arrangements might be necessary if (as seems realistic) Article 50(2) negotiations take longer than two years to conclude and the UK’s long-term relationship with the EU remains undetermined. Any transitional arrangements would likely mean that the status quo, at least so far as this relates to the UPC system, persists for more than two years from the triggering of Article 50(1). In practice this status quo might be permanent in relation to the UPC system, because it is difficult to see how far away the UK can move away from the status quo on substantive EU patent law, the jurisdiction and competence of the CJEU and enforcement of patent judgments, while remaining compliant with Opinion 1/09.

## What happens if the UK cannot remain a member of the Unified Patent system?

Understandably, influential UK industry bodies such as IPFed and CIPA have called for clarity on next steps, and co-operation between Member States to put in place the necessary legal regime to ensure the UPC system will survive Brexit, whether that is with or without the UK’s ongoing membership. If a framework to deal with Opinion 1/09 cannot be agreed, the necessary alternative is to put in place transitional arrangements.

If the UK ceases to be a UPC state upon Brexit, London will lose the chemistry Central Division. There will need to be transitional provisions to deal with the transfer to other UPC courts of ongoing cases. Patentees will also require assurances that any Unitary Patents will retain a UK designation (presumably subject to the jurisdiction of the English courts) following the UK’s secession from the UPC system.

If the UK is to be on the outside looking in post-Brexit, we would expect the English court to examine how it can remain competitive with a much larger European rival. If the UK does not remain a member post-Brexit, we would expect patentees to look more closely on a case-by-case basis at whether to enforce in the UK and, if they do, the timing of enforcement. Reforms might include the appointment of more specialist patent judges, to increase the speed and predictability of decisions, and to ensure that a single judge can be docketed on a case from start to finish. There may be moves to reduce cost, a common complaint in relation to the English court, by way of abbreviating or eliminating certain procedural steps. We are already seeing signs of the court taking steps to further limit, and in some cases curtail completely, disclosure requirements in relation to patent validity. It may be that the English court moves to more readily grant interim injunctions, and/or to set an even higher bar for validity, in order to encourage forum shopping. If a potential infringer can obtain an influential opinion of invalidity from the English court, they should be in a stronger position to invalidate the equivalent Unitary Patent (or to achieve settlement).

## The German perspective

German patent practitioners have very much welcomed the UK's announcement to ratify the UPCA. The German perspective is that UK participation is very valuable, considering the experience of UK judges and the input of UK practitioners in preparing for the UPC and its rules. Klaus Grabinski, Judge of the Federal Court of Justice of Karlsruhe in Germany, recently emphasised that it will make the UPC more attractive to users if its decisions will also cover the UK.

On the other hand, during the uncertainty after the Brexit vote there has been strong support in Germany for going ahead with the UPC even without the UK, and not waiting for the outcome of the exit negotiations. Many believe that the momentum created by the almost finalised UPC preparations should not be lost.

Now there is much hope that the original plan including the UK can be followed, and that plan should include the UK after Brexit. The view in Germany, even immediately after the Brexit vote, has been that the CJEU opinion 1/09 should not stop the original plan from going ahead. If the political will exists, a solution to deal with the technical legal obstacles for a non-EU UK to participate will be found.

## The French perspective

After having put the subject high on the agenda of its rotating EU Council presidency, France chose to ratify the UPCA very early on. This step was meant to constitute a sign of political commitment to the success of the project.

Following Brexit, France has remained heavily involved in the preparations, despite the uncertainties resulting from the referendum.

With the announcement from the UK, research on a suitable location for the Paris Central Division (which shall be responsible for IT and telecoms) has intensified once again. So too has the consultation on the identity of the first President of the UPC, who shall be a French national.

While the uncertainties around the UK's long-term participation in the project are seen to be regrettable, the fact that this long-awaited project can now go ahead is seen with enthusiasm by most.

## Why does it matter?

A matter of weeks ago, it was not an uncommon opinion (at least in the UK) to question whether the UPC system would go ahead at all. It would now appear that it is almost certain to happen. The prevailing consensus in UPC states is that the UPC system will materially simplify the European patent system. This will lead to more straightforward and cheaper enforcement. In April to May 2016, Allen & Overy carried out its second [benchmarking study on the UPC](#). 51% of businesses responding thought the UPC was likely to benefit them. Looking forward, 66% of respondents expect to apply for unitary effect for all or some of their future filings.

The UK's long-term membership of the UPC system, however, remains in doubt. While the UK Government may be taking the approach that, once established, the other UPC states will want the UK to continue to be part of the UPC (in order for it to be as successful as possible), whether this will, in fact, come to pass is inherently uncertain; something which is not welcomed by industry. If the UK is not able to remain within the UPC system, Unitary Patents will not cover the UK, which will limit the potential savings in cost and simplicity of pan-European enforcement. This may lead to less buy-in to the new system from patentees, because pan-European enforcement is the key upside for patentees, and an often important jurisdiction for enforcement will not be covered. Patentees do retain legitimate doubts about pan-European decisions on validity, and the risks of putting all their eggs in one basket. Consequently, only 27% of survey respondents planned to leave their "crown jewel" patents in the UPC system. 40% cited fears over the quality of judgments from the UPC as a reason for this. And the participation of experienced UK judges in the UPC is seen as an important part of building confidence in the system in its early years of operation.

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