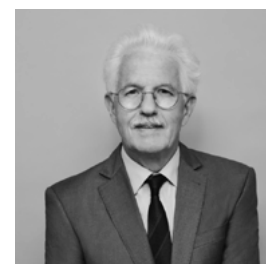

Act on the Ratification of the Agreement on a Unified Patent Court promulgated after unsuccessful constitutional complaints regarding UPC (German Federal Constitutional Court, order dated June 23, 2021 – docket nos. 2 BvR 2216/20 and 2217/20 –)

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With its order dated June 23, 2021 in the joint proceedings 2 BvR 2216/20 and 2217/20, the German Federal Constitutional Court (FCC) rejected the requests for a preliminary injunction because the constitutional complaints on the merits are inadmissible. This was the FCC's second decision on the Act on the ratification of the Agreement on a Unified Patent Court. With its first decision, dated February 13, 2020, the FCC still found that the Act on the ratification of the Agreement on a Unified Patent Court was unconstitutional because the vote by the German parliament (Bundestag) lacked a qualified majority back then. Subsequently, the German government put this Act to the vote again and the German Bundestag adopted the Act with the required two-third majority. Then, the German Federal Council (Bundesrat) unanimously adopted the Act. The complainants' constitutional complaints are directed against the Act on the Ratification of the Agreement on a Unified Patent Court, the requests for interim injunctions were supposed to prevent its signature by the German Federal President. With its decision, the FCC rejects the requests, i.e. the German hurdle regarding the ratification of the Agreement on a Unified Patent Court has been cleared. While a decision on the merits is indeed still

pending, it cannot be expected that the FCC will decide differently in that case.

1. The Unified Patent Court (UPC)

The Agreement on a Unified Patent Court is part of the reform package for the establishment of harmonized patent protection in Europe. Other parts of the bundle are the two EU directives on the unitary patent which already became effective in 2013 but will only become applicable upon the coming into effect of the UPCA. Such a patent is a European patent granted according to the provisions of the EPC which, upon request by the patentee, has a unitary effect in the contracting states of the UPCA under both EU regulations.

The Agreement on a Unified Patent Court is the outcome of several decades of efforts by various states, by judges and representatives of the users of the patent system who considerably shaped the unitary patent package, working towards the goal of harmonizing European patent law beyond the EPC, particularly in the sense of harmonized infringement proceedings. The signed version of the Agreement on a Unified Patent Court – which was concluded between 25 contracting states participating in enhanced cooperation – has existed since February 19, 2013. The history of the court's establishment is reminiscent of a roller coaster ride, because after the first euphoria about having reached con-

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sent on this mega project after many years, the mood dropped to unparalleled lows when the United Kingdom declared its exit from the EU – and, consequently from the package for unitary patent protection. This exit has been and is particularly significant because the United Kingdom was among the three states whose ratification of the Agreement (an international treaty) was obligatory. Moreover, the United Kingdom was among the first states to ratify the Agreement – that was before it declared its exit from the EU. By now, it has become clear that the United Kingdom is unable to play a role on its own in the UPC, as only citizens of member states to the UPCA are eligible to being appointed as judges. This is unfortunate, particularly because some of the stipulations under substantive and procedural law the UPC will apply originate from the Anglo-Saxon legal system. Another damper was put on the project when the first German constitutional complaint against the (first) German Act on the Ratification of the Agreement on a Unified Patent Court caused a considerable delay as well as uncertainty about the future of the project. So, the relief was even greater when the FCC only found the formal defect of a lack of the qualified majority in its first decision, which lack the legislative authorities could quickly correct. This was followed by disillusionment, in turn, when two constitutional complaints were filed against the (second) Act on the Ratification of the Agreement on a Unified Patent Court which Act had remedied the formal defects. These constitutional complaints also resulted in a further delay. Whether or not the stakeholders will have the necessary energy and motivation to breathe new life into this project remains to be seen. In terms of politics, contracting states still need to be recruited

for signing the Protocol on its Provisional Application (see item “Comments” below).

The objective of the contracting states to the UPCA is that the Unitary Patent Court streamlines the procedural enforcement of patents in Europe (i.e. the contracting states of the Agreement). The UPC is competent for both the infringement and legal validity of European patents. What is important in this context is that a transitional period of seven years applies as of the entry into force of the UPCA which is extendable by up to seven years. During these periods, the national courts and the UPC have concurrent jurisdiction over the enforcement of “classic” bundle patents. In contrast, the UPC has exclusive jurisdiction over European patents with unitary effect right from the start. However, it is expected that the first cases of the UPC will relate to “classic” European patents, since the unitary effect can only be requested for European patents granted as of the entering into force of the UPCA. Thus, during the first years of concurrent jurisdiction of the national courts and the UPC, an increasing shift of proceedings from the national courts to the UPC is to be expected – depending on the utilization of unitary patents. After the expiry of the – potentially extended – transitional period, the UPC will have the exclusive jurisdiction over the infringement of European bundle and unitary patents. Then, the national courts will only decide on national patents.

The UPC will be competent to decide on both the infringement and the legal validity of the patents in the cases it hears. Both isolated (central) revocation actions and infringement actions with a counterclaim for revocation are possible. The local divisions - or the central divisions in special

cases - are envisioned to serve as a first instance for infringement actions. Up to four local divisions are possible per contracting state (which is envisioned for Germany: Düsseldorf, Mannheim, Munich, Hamburg). Several contracting states may join forces to form a regional division. An agreement has already been reached regarding a Scandinavian/Baltic regional division (SE, EE, LT, LV). A regional division for South-East Europe has also been discussed. The filing of isolated revocation actions is possible with the central division. The central division has three locations which are competent in different technical fields. Since the United Kingdom withdrew from the Agreement, it has been unclear which city will succeed London as a location at which cases from the area of pharma and life sciences are to be heard in particular. Currently, Milan is a promising candidate since Italy has joined the ranks of the three most important contracting states after the United Kingdom dropped out. Now, Germany, France, and Italy are the three remaining contracting states with the highest number of patents granted in the year before the signing of the UPCA. The Luxembourg-based appellate court is the second instance for the local and regional and central divisions. Article 21 UPCA provides for requests for preliminary rulings by the UPC to the Court of Justice of the European Union; the latter's decisions are binding for the UPC - an arrangement which diametrically opposed the UK's pursuit of judicial autonomy.

2. Decision of the FCC

The FCC decided on the requests for an interim injunction of the complainants - who considered the future UPCA a limitation of their constitutional rights.

One complainant deemed their right to democratic self-determination pursuant to Art. 38(1) first sentence in conjunction with Art. 20(1) and (2) as well as Art. 79(3) German Constitution (Grundgesetz - GG) violated as they consider the rule-of-law principle laid down in Art. 20(3) GG violated because of the organizational structure of the UPC and the legal status of its judges. In this regard, the FCC states that the complainant did not sufficiently substantiate the criticized violation of Art. 38(1) first sentence GG and that the substantiation of a relatedness with the principle of democracy is lacking in particular. Moreover, the FCC points out that the rules that apply to judges in the context of the UPC are in line with the case law of the FCC and that - at least at international courts - a limited term as well as the possibility of re-election are common. In this respect, the FCC particularly refers to the practice of the General Court of the European Union and the CJEU.

Regarding the complaint of the other complainant, according to which Art. 19(4) GG in conjunction with 97(1) GG as well as Art. 6(1) ECHR is violated because the UPC allegedly does not guarantee any effective judicial relief, the FCC points out that the requirements for grounds pursuant to Sec. 23(1) second sentence, Sec. 92 Act on the Federal Constitutional Court demand that the impairment against which the complaint be lodged has to exist at the present time, so currently, not only potentially. Additionally, the FCC states, the complainants themselves need to be directly affected. However, the FCC continues, the complainants only argue that their rights may potentially be violated during future proceedings, and that this specifically does not suffice according to the case law of the FCC.

The alleged breach of European law, on which the complaint was based, fails to justify a violation of Art. 38(1) first sentence GG from the outset, according to the FCC's decision, because no formal or substantive requirements arise from European law which could cast doubt on the applicability of Germany law. According to the FCC, the same holds true for the complaint that implementing the UPCA is allegedly impossible after Great Britain left the EU, as this only relates to the specific interpretation of the Agreement, not to potential requirements by the German Grundgesetz.

The FCC rejects another reasoning of the complainants in detail. The complainants attacked Article 20 UPCA which postulates the primacy of EU law. In the opinion of the FCC, Art. 20 UPCA has to be understood in such a manner that it intends to eliminate any doubt of a compatibility of the UPCA with EU law. It holds that the Article is not about a provision on the relation between EU law and national constitutional law that goes beyond the status quo. The FCC states that Art. 20 UPCA is based on Opinion 1/09 of the CJEU dated March 8, 2011 in which the CJEU concludes that the primacy of EU law as well as the preservation of the autonomy of the legal order of the European Union are compulsory requirements for the admissibility of a unified European Patent Court under EU law. According to the FCC, the German federal government is of the same opinion as, even in the reasons attached to the first draft of the Act on the ratification of the UPCA, it already stated that Art. 20 UPCA only serves the purpose of clarification. Hence, the FCC states, Art. 23(1) first sentence is not violated.

Thus, overall, the FCC rejected the complainants' requests for an interim injunction as it did not consider the violations of the German constitution for which the complaint was lodged sufficiently substantiated. Accordingly, it deemed even the underlying constitutional complaints inadmissible. When the fact that constitutional complaints had been lodged became known, the German Federal President merely undertook to not sign the Act on the ratification until a decision would be rendered on these requests. After this hurdle had been cleared, the German President signed the Act on the ratification on August 7, 2021, and the legislative process was concluded by the promulgation of the Act on the ratification of the UPCA on August 12, 2021. The last step Germany has to take is deposit the instrument of ratification. Germany is expected to wait until the timely conclusion of the preparations is predictable, for the UPCA takes effect on the first day of the fourth month after the last instrument of ratification was deposited.

3. What's next?

Several steps are still necessary before the UPC can start its operations.

In terms of administration, the provisional application of the UPCA takes priority. For this purpose, the member states created a Protocol on the Provisional Application of the Agreement. However, two member states that have to sign the Protocol are still missing at the moment. Now that Germany is able to conclude the ratification of the Agreement and, thus, the signature of the Protocol becomes effective, it may well be expected that other countries among the 15 states that have already ratified the Agreement, yet not signed the Protocol, will jump on

the bandwagon. Enclosed to this IP Report, you will find a list of the 25 participating contracting states with the respective date of the ratification and the declaration regarding the Protocol on the Provisional Application.

The preparations have to be concluded during the phase of the provisional application of the Agreement. This particularly includes the selection of the judges as approx. 50 legally qualified and 100 technically qualified judges need to be found. However, the stage of application for these posts had largely already been concluded in 2014 without any judges having been selected. It can hardly be assumed that the results of those proceedings are still current enough to serve as a basis of the appointments to be made by the Administrative Committee of the UPC. What is helpful in this context is that the FCC does not have any concerns regarding the conditions for the election of the judges. What still seems unclear is how the training of future judges, which was started after the application phase ended, but was soon discontinued, is supposed to continue. In particular, talk about the training center for future judges pursuant to Art. 19 UPCA, which was established in Budapest, has ebbed away since its opening in 2014. Presently, the ratification of the UPCA by Hungary is on hold, after the Hungarian constitutional court decided that the ratification requires an amendment to the Hungarian constitution in 2018.

What is of key political significance is the staffing of key positions such as the president of the appellate court. The position of the President of the Court of First Instance is

designated for France pursuant to Art. 14(2) of the Agreement. What remains to be seen is which city will replace London as the location of a section of the central division and whether an intermediate solution including a distribution of the cases to Munich and Paris will emerge before an agreement is reached. Large parts of the IT for the new court has already been set up. There is a pilot project for the case management system which can already be tested by the future users. The Chair of the Preparatory Committee, Alexander Ramsay, estimates that the preparatory measures will be concluded within approx. 8 months.

Following this preparation phase, the UPC can take up its judicial activity. Alexander Ramsay expects that the UPC will be operational by mid of 2022¹. Of course, optimistic prognoses on said schedule have an eight-year tradition by now.

During the period of the provisional application, and at least three months before actions may be filed with the UPC, the period called “sunrise period” is to begin. During said phase, patentees may declare whether they exclude individual bundle patents (or even entire portfolios) from the scope of application of the UPCA. For this purpose, a form needs to be submitted; the exclusion will not be subject to a fee, given that users intervened.

¹ <https://www.unified-patent-court.org/news/what-decision-german-federal-constitutional-court-means-unified-patent-courts-timeplan>

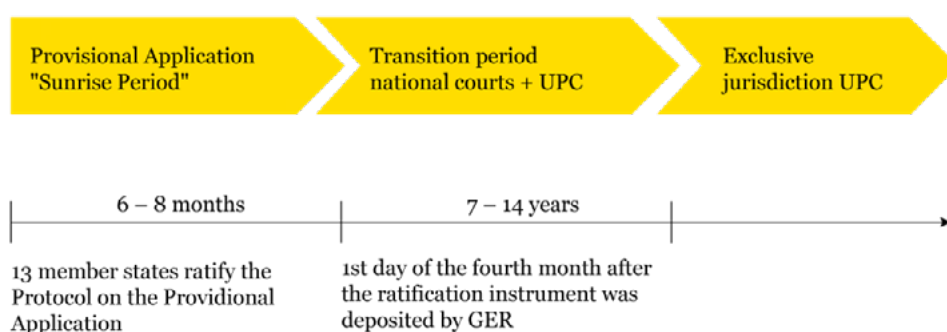
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Thus, to bundle patents, the following timeline will apply:



Comments

After the game-changing decision of the FCC, the UPC can finally gain full momentum. What is a precondition, however, is that the contracting states have the political intention of implementing the momentum that exists now instead of wasting time and energy on pedantic disputes about questions that still need to be answered. Past surveys have shown that industry does have an interest in a harmonized and centralized Unified Patent Court, even without the United Kingdom.

For companies, getting prepared for the start of the UPC is important now. Now, there is the possibility of filing central infringement actions with effect in the participating contracting states. At the same time, patentees face the danger of losing a patent with effect in all participating contracting states because of one central revocation action. Parties that choose the unitary patent choose the Unified Patent Court. Parties that stick to the bundle patent are able to declare an

opt-out during the transitional period. With such a declaration, individual bundle patents can be excluded from the jurisdiction of the UPC. In that case, the national court would keep exclusive jurisdiction over such patents. Companies need to be aware of the fact that only the holder entitled under substantive law is able to declare an opt-out, i.e. that the data on register is not relevant. Combining both possibilities is also possible with a parallel approach. For example, by filing a divisional application both a bundle and a unitary patent can be obtained. Germany facilitates this path by replacing the existing ban on cumulative protection - which can easily be circumvented as it is - by a ban on parallel assertion of both IP rights. For Germany, the cost-efficient branching off of a utility model as soon as a European patent is ready for grant can also keep open the option of access to German infringement courts - an approach that is not possible for all technical subject matter, however.

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From a strategic perspective, companies need to and should expect actions to be filed immediately after the start of the UPC in order to make use of the system's advantages against infringers. In this context, strategic considerations are important to prepare for an optimal use of the possibilities of the UPC either from the plaintiff's or from the defendant's perspective.

Existing license agreements as well as license agreements that will be negotiated and concluded in the future also need to be examined in terms of their compatibility with the rules of the UPCA. On the one hand, clauses which relate to the defense against and filing of infringement and/or revocation actions need to be adapted to the new procedural rules; in this context, the questions of who is eligible to sue and, above all, where parties should sue are to be clarified, for example. On the other hand, the interests of the involved parties in both the grant of a unitary Patent and a declaration of an opt-out may possibly differ.

The success of the Unified Patent Court will largely depend on the extent to which unitary patents are also interesting for applicants in terms of costs. For average applicants - who desire protection in three to four countries including the United Kingdom by means of a bundle patent so far, the basis of transaction has changed. Now, they have to separately pay for renewal fees for the United Kingdom and other expenditures for the granted patent. It could have been expected that this would be addressed by an adjustment of the renewal rates for unitary patents. Up to now, this has not become apparent. The Select Committee of the European Patent Organisation that is in charge of this issue has not yet scheduled any meetings for this

year. This seems to reinforce the expectation that the unitary patent will only save costs for applicants that need protection for a large number of contracting states, such as the pharma industry, for example.

The unitary patent was not conceived as a patent for the entire Common Market at any rate because, for decades, national interests prevented EU-wide consensus soon after efforts to form a European patent system were begun; only the institution of enhanced cooperation cleared the way out of the blockage for a group of EU states. A number of 25 of what are now 27 EU member states have signed the UPCA, but after the conclusion of the ratification by Germany, only 16 states will have ratified it. Ireland requires a referendum, Hungary an amendment to the constitution; Croatia, which has become a member state of the EU in the meantime, has not yet decided that it will join the unitary patent system, Poland decided against the unitary patent for economic reasons, and there are similar considerations in other states. In contrast, Italy - which was an opponent to the unitary patent - has led the way and developed to become a pretender to the location of a division of the Unified Patent Court. It will be exciting to see whether other states will follow this lead.

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Belgium	June 6, 2014		Signature: June 29, 2016 Promulgation: Jan. 29, 2020	Declaration of provisional application of certain Articles of the UPCA as of May 15, 2017: <ul style="list-style-type: none"> • Articles 1-2, 4-5, 6(1), 7, 10-19, 35(1,3, and 4), 36-41, and 71(3) of the UPCA • Articles 1-7(1), 7(5), 9-18, 20(1), 22-28, 30, 32, and 33 of Annex I to the UPCA
Bulgaria	June 3, 2016	Promulgation: July 24, 2018 Signature: Sep. 11, 2017	Signature: July 20, 2016	Signing of PPA only became binding approval after ratification
Denmark	June 20, 2014	Signature: Oct 11, 2015	Signature: June 29, 2016	

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Germany		Signature: Oct 1, 2015	Signature: June 29, 2016	<p>FCC order dated June 23, 2021 (2 BvR 2216/20, 2 BvR 2217/20) rejection of requests for preliminary injunction against the second Act on the ratification of the Agreement on the UPCA of February 19, 2013, which Act was accomplished on December 18, 2020.</p> <p>Signature of Federal President on August 7, 2021 and promulgation on August 12, 2021</p>

Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Estonia	Aug. 1, 2017			<p>Declaration of provisional application of certain Articles of the UPCA as of July 3, 2017:</p> <ul style="list-style-type: none"> • Articles 1, 2, 4, 5, 6(1), 7, 10-19, 35(1), 35(3), 35(4), 36-41, and 71(3) of the UPCA • Articles 1-6, 7(1), 7(5), 9-18, 20(1), 22-28, 30, 32, and 33 of the Statute of the UPCA (= Annex I? see Belgium) <p>July 2017: Publication of government decision in the government gazette, including a one-page declaration that Estonia subjects itself to the PPA</p>

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Finland	Jan. 19, 2016		June 29, 2016	<p>Declaration of application of certain Articles of the UPCA:</p> <ul style="list-style-type: none"> Articles 1, 2, 4, 5, 6(1), 7, 10-19, 35(1, 3, and 4), 36-41, and 71(3) of the UPCA Articles 1-6, 7(1 and 5), 9-18, 20(1), 22-28, 30, 32, and 33 of the Statute of the UPCA
France	March 14, 2014	Promulgation: May 23, 2017 Signature: Oct 1, 2015	Signature: June 29, 2016 Promulgation: Feb. 14, 2018	
Greece		Signature March 23, 2017	Signature: June 29, 2016	

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Ireland				<p>Participation in UPC requires amendment of constitution which, in turn, requires confirmation by a referendum; a referendum has not yet been scheduled; reports, according to which it was supposed to take place in early 2021 are said to have been wrong</p> <p>Planning of local division</p>
Italy	Feb. 10, 2017	Signature: Feb. 20, 2017	Signature: June 29, 2016 Promulgation: April 20, 2018	
Latvia	Jan. 11, 2018			
Lithuania	Aug. 24, 2017			
Luxembourg	May 22, 2015	Promulgation: July 18, 2016 Signature: Oct 1, 2015	Signature: June 29, 2016 Promulgation: April 3, 2018	

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Malta	Dec. 9, 2014		Signature: June 29, 2016	Reports: Approval of PPA as soon as starting date of Provisional Application Phase is known

Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
The Netherlands	Sep. 14, 2016		Signature: June 29, 2016 Promulgation: Jan. 23, 2017	<p>Declaration of provisional application of certain articles of the UPCA as of the date on which the depositary was informed that the approval of the ratification exists</p> <ul style="list-style-type: none"> Articles 1, 2, 4-5, 6(1), 7, 10-19, 35(1, 3, and 4), 36-41, and 71(3) of the UPCA Articles 1-7(1), 7(5), 9-18, 20(1), 22-28, 30, 32, 33, and 35(1) of Annex I to the UPCA (Statute of the UPCA) <p>Decision by ministerial council for a local division of the UPC in Den Haag</p>
Austria	Aug. 6, 2013	Signature: Jan. 29, 2019		Planning of local division in Vienna

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Portugal	Aug. 28, 2015		Signature: June 29, 2016 Promulgation: April 8, 2021	
Romania		Signature: Sep. 14, 2016		Ratification of PPA and UPC Agreement were already expected in 2018 Points for discussion seem to be: <ul style="list-style-type: none"> • Provisional application of UPCA • Compatibility national lawyers/judges and their part-time work as UPC judges
Sweden	June 5, 2014	Signature: Oct 1, 2015	Signature: June 29, 2016	
Slovakia				

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Slovenia		Signature: Oct 1, 2015	Signature: June 23, 2017	Local division of UPC One of the two locations of the UPC Patent Mediation and Arbitration Center (in addition to Lisbon) Declaration to accept such a center as part of the UPC and that PPI is applied to it mutatis mutandis Ratification of the UPCA and PPA written down in law since Oct. 2016, but not implemented yet
Czech Republic				
Hungary		Signature: Oct 7, 2015		June 26, 2018 Decision of Hungarian constitutional court (No. X/01514/2017): Amendment to constitution necessary to be able to ratify UPCA

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Cypress				
United Kingdom	April 26, 2018	Signature: Oct 1, 2015	Signature: Dec. 14, 2016 Promulgation: April 26, 2018	Withdrawal of ratification and approvals received and effective as of July 20, 2020
Spain				<p>Disapproval of UPC</p> <ul style="list-style-type: none"> • Spanish is not a procedural language • Uncertainty regarding UPC because of Brexit and constitutional complaints in Germany • Spanish companies could still obtain and enforce a UP (outside of Spain) • Higher costs of litigation as compared to those before Spanish courts

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Contracting state	Ratification (Promulgation)	Protocol on the Provisional Application (PPA) signed/considered binding	Protocol on the Privileges and Immunities (PPI)	Particularities
Croatia				Disapproval of UPC
Poland				Disapproval of UPC