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### The ministerial draft bill ratifying the Unified Patent Court Agreement (UPCA) – is the UPCA ready to enter into force?

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**The history of the Unitary Patent and the Unified Patent Court project has been full of surprises with it taking a new course in February 2020 on account of the two hitherto existing obstacles to the successful conclusion of the project: the participation of the United Kingdom following Brexit and the ratification process in Germany being halted pending constitutional complaints against the law ratifying the Agreement on a Unified Patent Court (UPCA).**

#### 1. Introduction

On February 27, a spokesperson for the British government announced in a publication that the United Kingdom would not be seeking participation in the Unitary Patent and the Unified Patent Court and that participating in a court that applies EU law and is bound by the case law of the CJEU is inconsistent with the aim of becoming an independent and self-governing nation.

In its decision of February 13, 2020<sup>1</sup>, the German Federal Constitutional Court nullified the law ratifying the UPCA and the Protocol on Provisional Application on the grounds that the constitutional requirements for sovereign powers to be effectively transferred to the Unified Patent Court (UPC) have not been observed, since the law was not passed with the two-thirds majority required.

Both of these situations have given rise to all sorts of speculation regarding the fate of the Unified Patent Court (UPC) and thus the entire “Unitary Patent” reform package. Speculation ranges from predictions of it being the “end of the line” through to it being postponed for at least 5 years through to another ratification later this year. In any case, Alexander Ramsay, Chair of the UPC Preparatory Committee, announced that the necessary arrangements will be made to deal with the practical implications of the UK’s departure as soon as Germany is in a position to ratify the UPC Agreement and the Protocol. Shortly afterwards, on March 20, the German Federal Minister of Justice and Consumer Protection made the following statement to the press:

*“I shall continue to make every effort to ensure that we can provide innovative industry in Europe with a European Unitary Patent and a European Patent Court. The German Federal Government shall carefully analyze the decision of the German Federal Constitutional Court and shall, within this parliamentary term, examine possibilities for remedying the lack of compliance with legal formalities as found by the Court”.*

A European patent for the common market has been on the political agenda since the early stages of the European Economic Community, but national interests have thwarted the many attempts to implement it.



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<sup>1</sup> 2 BvR 739/17, GRUR 2020, 506.

In particular, the issue of language and the various ideas about a common court system have posed insurmountable difficulties and ever greater enlargement of the Community has not made the task any easier. The possibility of “Enhanced Cooperation” between a group of EU states, which was made possible by the Treaty of Amsterdam, finally overcame the power of veto held by particular states, allowing a Unitary Patent package to be put together. In 2013, it seemed as though all political obstacles had been removed. The Regulations on the Unitary Patent entered into force and the UPCA was signed. However, the necessary ratifications took considerably longer than anticipated and then, in June 2016, came the shock of the Brexit vote.

Shortly after this, a “Plan B” was considered – in other words, a system without the participation of the United Kingdom. This new development in turn prompted the UK’s responsible politicians, right up to the Prime Minister Theresa May, to affirm their continued interest in participating in the Unitary Patent and the Unified Patent Court. Without any progress having been made in this matter, Plan B was dropped, at least from the political agenda. However, in the various literature, it was disputed whether a Unitary Patent System with the participation of the United Kingdom could be legally possible on the present basis.<sup>2</sup> The statements from the British government under Johnson make this dispute irrelevant, prompting the interested circles to express their interest in a Unitary Patent without the United Kingdom.

On June 8, the German Federal Ministry of Justice and Consumer Protection sent the institutions concerned with patent law the ministerial draft bill ratifying the UPCA, which in substance has remained unchanged with merely the explanatory statement having been updated. According to the bill, the fact that the United Kingdom is leaving the UPCA following Brexit does not prevent the Agreement from being implemented and the provisions relating to entry into force are to be construed such that the unforeseeable departure of one of the three mandatory states does not prevent the entire Agreement from entering into force for the remaining parties. It indicates that the provision of the UPCA relating to a central division of the UPC in London is not to be understood to mean that a central division could be established or allowed to remain in a non-Contracting State, but rather to be construed such that, where London ceases to be the location of this central division, the latter’s jurisdiction shall, at least during the transitional period, fall to the other central divisions in Paris and Munich. According to the bill, an express provision can be made at any given time when examining the functioning of the Court as provided for under Art. 87(1) and (3) of the UPCA. The remaining Contracting Member States are seeking a political declaration on these issues.

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<sup>2</sup> See, for example, *Leistner/Simon*, GRUR Int. 2017, 825, Auswirkungen des Brexit auf das europäische Patentsystem, in contrast with *Ubertazzi*, GRUR Int. 2017, 301, Brexit and the EU Patent as well as *Broß/Lamping*, GRUR Int. 2018, 907, Das Störpotential des rechtsstaatlich-demokratischen Ordnungsrahmens am Beispiel der europäischen Patentgerichtsbarkeit, with numerous references.

## 2. Outstanding issues

Whether the actual current situation justifies concluding the ratification process or whether further conditions are to be created to turn the Unitary Patent and Unified Patent Court project into reality needs to be examined.

### 2.1 The status of the United Kingdom as a Contracting State of the UPCA

The United Kingdom ratified the UPCA before it left the EU with effect as from January 31, 2020. Unlike the EU Regulations on the Unitary Patent, the UPCA is not EU secondary legislation, which ceases, by operation of law, to apply to a state upon leaving the EPC, but rather an international treaty. Therefore, where a state leaves the UPCA, rules of international law prevail.<sup>3</sup> In the absence of an explicit provision relating to a state leaving the Agreement, the general rules of international law apply, as laid down in the Vienna Convention on the Law of Treaties (VCLT).<sup>4</sup> The provision of primary relevance here is Art. 54(b) VCLT, according to which a Contracting State may withdraw by consent of all Contracting States. The United Kingdom has not as of yet given notice of its intention to withdraw. It seems it has not made any declaration to the other Contracting Member States. The only formal declaration made by a member of the government was a letter dated March 24, 2020 from the responsible Minister to the Judicial Committee of the House of Lords, in which the Minister confirmed the announcement made by the press officer the previous month. Early

notice of withdrawal is problematic for the very reason that the Protocol on the Provisional Application of the UPCA provides that 13 signatory states (specifically including the United Kingdom) must have ratified the Protocol for the latter to enter into force. Previous notice would possibly render this ratification moot.

Pursuant to Article 2(b) and (c) as well as Article 84(1) and (4), the UPCA provides for the participation of merely Member States of the EU in order to accommodate the concerns raised in the opinion of the European Court of Justice G 1/09 with regard to the participation of third-party states. According to this, the continued membership of the United Kingdom would violate the UPCA and probably EU law as well. Pursuant to the duty to act in good faith under Art. 18 VCLT, Germany may not act in such a way as to defeat the object and purpose of the UPCA. Germany must therefore ensure that a ratification triggering the UPCA to enter into force does not result in the United Kingdom remaining a Contracting Member State of the UPCA. It will hardly be possible for the United Kingdom to be excluded from the UPCA against its will and certainly not where unilaterally construed by a single Contracting Member State. Therefore, the cooperation of the United Kingdom will be necessary to ensure that the departure takes a form that is binding under international law.

Recently, the United Kingdom's interest in the UPCA has fundamentally changed. As long as the United Kingdom was participating, the UK (or at least its public stake-

<sup>3</sup> *Aymaz, Horn, Karaosmanoglou*, Mitt. 2020, 197, Rechtliche Vorgaben für einen neuen Anlauf zur Ratifizierung des UPC-Übereinkommens.

<sup>4</sup> *Weiden*, GRUR 2020, 503, Aktuelle Berichte – Mai 2020.

holders) were strong supporters of the UPCA in the hope of strengthening London as a legal venue. In the future, the English courts will not only be in competition with other national patent courts, particularly those in Germany, France and the Netherlands, but also specifically in competition with the UPC, which ought to attract patent litigation of particular economic significance. Thus, by all accounts, the London venue is already reflecting on how they can stand their ground amongst such competition. The United Kingdom has obviously understood that, by using clever tactics, it can delay a plan B for a system without the UK following Brexit. Now the United Kingdom no longer has any tangible interest in constructive cooperation to help overcome the consequences of Brexit for the UPCA. In any case, with the hard Brexit that is currently feared, it cannot be ruled out with the necessary certainty that the UK may try to hold the UPCA hostage for the purpose of obtaining concessions in other areas.

### **2.2 Article 7(2) UPCA – The central division of the UPC in London**

There are three alternative answers to the question as to what ought to happen to the cases intended for the London central division pursuant to Art. 7(2) UPCA in combination with Annex II of the Convention:

- subsidiary jurisdiction at the seat of the central division in Paris;
- accumulation of cases falling to the remaining central divisions in Paris and Munich;
- a new substitute central division in another Contracting Member State, e.g. Italy or the Netherlands.

There are good legitimate arguments for each of these alternatives, which cannot be reviewed here. From a German point of view, it would be preferable for the resources to be strengthened in Germany as the Contracting Member State in which by far the most patent cases are heard and in which there is the greatest potential with regard to the availability of experienced judges.

In any case, it is obvious that the Contracting Member States have different interests that they cannot easily, or will not, set aside. It should be pointed out that the seat of the central division was at issue up until shortly before the UPCA was signed and could only be decided by means of a political compromise at the highest level. No solution in the sense of any one of the three alternatives mentioned can be inferred from the Convention. In any case, it is not unlikely that the Registrar of the UPC will claim the competence, in accordance with their powers under Art. 23 and 24 of the Statute of the UPC in combination with Rule 17.3 of the RoP, to assign the cases to the organizational unit that the Registrar considers appropriate, i.e. to the seat of the central division in Paris or Munich. Should the situation arise, the President of the Court of First Instance or of the Court of Appeal could also attempt to exercise influence under Art. 18(1) of the Statute. Aside from the fact that such a solution seems, from a German point of view, to be dubious for the very reason of its legal basis (the right to a legally competent judge – a “fundamental procedural right” – even if the practice of composing international panels of judges may not always comply with this right), such a purely administrative solution is simply inadequate. A solution that is to be found politically by the Contracting Member States and which is independent of

the individual case and the opinion of single individuals (i.e. a universally applicable solution) is clearly preferable, not least in order to promote the users' trust in a court system that is only just being created.

### 2.3 The legal status of the judges of the UPC

The explanatory statement to Art. 1(1) of the ratifying law states that the German Federal Constitutional Court based the nullity of the ratifying law merely on the fact that the requirement of a two-thirds majority pursuant to Art. 23(1) of the German Constitution was not observed. It could be concluded from this that the German Federal Constitutional Court did not consider the objections raised with regard to the independence of the judges to be convincing, from which it follows that a further constitutional complaint relating to the ratifying law would not have any prospect of succeeding.<sup>5</sup>

This is at best an embellishment. The objections raised in the matter have currently not yet been resolved:

The core of the decision is that citizens are granted a right to the effect that sovereign powers can only be transferred as provided for by the German Constitution. However, this does not allow citizens to have the emergent law fully examined with respect to its constitutionality by way of a constitutional complaint, since this would ultimately amount to an abstract judicial review as an individual legal remedy, which is not

provided for under the German Constitution. Therefore, in the case specifically to be ruled upon by the German Federal Constitutional Court, e.g. the inadmissibility (not the lack of merit) of the objections relating to the appointment and re-appointment of judges, the Court stated that the appellant had not substantiated that the deficiencies highlighted affect the democratic legitimacy of the judges. This will also form the test to be applied in any future constitutional complaint regarding the ratifying law.

However, the situation would be very different if, in the future, a constitutional complaint were to be based on the appellant's rights having been violated by the UPC, because the ruling judge did not meet the constitutional standards for an independent court. The decision of the German Federal Constitutional Court dated July 24, 2018<sup>6</sup> regarding effective judicial relief against the acts of one of the European schools is relevant here. As a matter of principle, the German Federal Constitutional Court declared that international organizations must ensure that fundamental rights are protected, maintaining the minimum constitutional standard, particularly guaranteeing the essence of the German constitution, and especially observing the rule of law. The guarantee of effective judicial relief includes access to independent courts.

Personal independence<sup>7</sup>, which is affected by re-appointment, is an essential aspect of this independence. This is clear from the decision of the German Federal Constitutional

<sup>5</sup> *Tilmann*, GRUR 2020, 441, Zur Nichtigerklärung des EPGÜ-Ratifizierungsgesetzes

<sup>6</sup> BVerfGE 149, 346.

<sup>7</sup> With regard to Union law, see ECJ C-619/18, EWS 2018, 360, EU Commission versus Poland.

Court dated March 22, 2018<sup>8</sup> with regard to relieving the burden on the administrative courts by appointing acting judges, where it found that the possibility of acting judges being re-appointed cannot be justified under constitutional law. If, after the term of office expires, a decision could be made to re-appoint judges for a further term of office, then the continuation of judicial functions could be controlled by the executive; this could infringe the rule prohibiting the dismissal of judges, which serves to protect judicial independence.

It remains to be seen how the German Federal Constitutional Court will consider the aforementioned decision in relation to its statement in 2 BvR 739/17 to the effect that international treaties cannot be subject to the same requirements of certainty and volume of legislation as are imposed on national law. In any case, the earlier decisions cited by the German Federal Constitutional Court in this context do not relate to fundamental procedural rights. Further light could be shed on this by the decisions announced for this year in the Court's annual preview, which relate to the four constitutional complaints based on insufficient judicial relief against decisions of the EPO Boards of Appeal. These cases also involve detailed discussion of the issues of appointment and re-appointment.

It would be unreasonable not to consider the relevant findings of these decisions in the legislative proceedings now initiated prior to the parliamentary proceedings.

### 2.4 Appeal of the Unitary Patent

The UPCA is just one part of the Unitary Patent package. The functioning of the UPC is largely based on the Unitary Patent being accepted. During the transitional phase pursuant to Article 83 UPCA, the UPC has exclusive jurisdiction only for Unitary Patents; the national courts retain concurrent jurisdiction for European bundle patents.

The renewal fees for the Unitary Patent were calculated by the Select Committee of the European Patent Organisation according to the "True Top 4" model. This is based on the idea that the renewal fees for the Unitary Patent ought to correspond to the fees paid by patent proprietors for national patents in the four participating Contracting States in which the European patent is most frequently validated (DE, FR, NL, UK). The renewal fees have not yet been recalculated on account of Brexit, which raises important questions.

The "commercial basis" for the cost comparison between bundle patents and Unitary Patents has changed considerably as a result. In the future, applicants will additionally have to pay the renewal fees for the United Kingdom, which will increase from GBP 70 to GBP 610 by the end of the term. This does not make an enormous difference for applicants validating their patents throughout Europe. However, a considerable majority of applicants validate their patents, at most, in the four States forming the basis of the "True Top 4" calculation. It can be safely assumed that this will be reflected by the course of action taken by applicants. This in turn ought to have an effect on the volume of cases heard by the UPC.

<sup>8</sup> BVerfGE 148, 69

Ultimately, it cannot be denied that, with the United Kingdom out of the picture, the appeal of the UPC itself will also decline. Not only will excellent judges and lawyers be excluded, but the UPC will not be able to rule on cases with effect for the UK's important economic market, thus entailing the risk

of duplicated proceedings (not to mention procedural costs). The procedural costs for English litigation proceedings are generally far higher than the procedural costs in the important patent jurisdictions in continental Europe, i.e. Germany, France, the Netherlands and Italy.

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### Summary and evaluation

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The ministerial draft bill assumes that the issue of the UK's departure is to be resolved through interpretation of the UPCA. Firstly, doing so will not answer the question as to the time and manner of the United Kingdom's departure. The participation of the three mandatory states is indeed central to the UPCA. With the departure of one of these states, the inherent purpose of the present agreement is doubtful. Therefore, a consensus needs to be formed among the remaining states in a manner that is binding under international law, in order to create a secure and stable legal basis for the UPC. There is no body competent to give a binding interpretation of the UPCA if such an agreement cannot be reached.

An internationally binding agreement as to the competent body for cases intended to be heard by the central division in London pursuant to the UPCA is necessary before the UPCA enters into force. Article 87(2) UPCA is not a suitable instrument for establishing this competence due to the requirement of unanimity and the existing conflict of interests. An agreement between the Contracting Member States regarding the distribution of cases, as initially sought by the government's bill is unlikely from a politically realistic point of view.

Finally, the changes in the framework conditions require financial follow-up action. This involves, firstly, reducing the renewal fees for the Unitary Patent in order to compensate for the UK's departure (the Select Committee of the European Patent Organisation is responsible for this, but no session has been scheduled for it in 2020) and, secondly, reassessing the volume of cases expected to be heard by the UPC in the conclusion of the explanatory statement to the ratifying law, which will affect the financial contributions to be paid by the Contracting Member States pursuant to Article 37 UPCA.

In summary, the Unitary Patent and the Unified Patent Court are of course fundamentally desirable in the authors' opinion and this may still be the prevailing view in industry according to media reports. However, there is increasing skepticism. There is an understandable major interest as it were in a swift entry into force after many years' delay – but not at any price and not with such haste that would entail wholly unnecessary risks. After all, the quality and stability of the court system and the financial burden ultimately to be borne by European citizens are just as important values.