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Building IP value in the 21st century

The impact of Brexit on the European Patent Convention,
unitary patent and Unified Patent Court

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The impact of Brexit on the European Patent Convention, unitary patent and Unified Patent Court

By Rainer K Kuhnen, KUHLEN & WACKER Intellectual Property Law Firm

For decades, Europe has awaited a single EU patent. This finally seemed in reach, with the unitary patent and Unified Patent Court (UPC) package on the home stretch and set to become operative in 2017. Thus, it seemed the right time for applicants to review their European patent filing strategy. However, on June 23 2016 the UK electorate voted in a referendum to leave the European Union, commonly referred to as 'Brexit'. Although this will not automatically put an end to the unitary patent/UPC project, it will certainly have an impact. This chapter sheds light on the mechanism involved in Brexit and its impact on patent filing strategies for Europe.

Rules for leaving European Union: Article 50

Since the creation of the European Economic Community in 1957, many European countries have joined the European Union, including the United Kingdom in 1973, but no member state has ever left. In fact, the right to withdraw from the European Union was enshrined in the EU treaties only in 2009. Thus, it is unsurprising that the announcement of the Brexit decision unleashed an avalanche of speculation, although only two facts are known for sure:

- the result of the referendum; and
- Article 50 of the Lisbon Treaty.

The result of the referendum was clear, with 52% of the UK electorate voting to leave; however, its further implications are not, since the referendum is not binding on the UK government. In any event, the Brexit vote has no immediate legal effect in the United Kingdom. Further,

the UK European Union Referendum Act 2015 was silent about what must happen after the referendum, if the vote was to leave the European Union (which is without precedent in European history).

Article 50 of the Lisbon Treaty sets out the mechanism for leaving the European Union. Accordingly, the United Kingdom will notify the European Council of its intention to withdraw from the European Union; this notification then starts a two-year period of negotiations on an agreement setting out the arrangements for withdrawal and the framework for the United Kingdom's future relationship with the European Union. The two-year term starts from notification and can be extended if all 27 remaining EU member states agree.

If there is no agreement after two years and no extension, the United Kingdom's membership of the European Union will automatically cease on unclear terms. This seems an unlikely scenario, as neither side can afford the resulting political and economic chaos. On the other hand, in a first reaction to the UK government's plans to notify the European Union by the end of 2016, the EU Council made clear that no talks will start before the notification to leave is received. This has fuelled speculation that the two-year time limit of Article 50 encourages an intransigent attitude on the part of the European Union. This view is supported by a former UK politician who was involved in devising Article 50 and who confirmed that the divorce process is purposely designed to give the European Union the upper hand over the departing state. This will provide little incentive

for the UK government to send timely notification of its intention to leave, but instead will encourage it to play for time. However, this may also be risky for the United Kingdom, as ongoing political uncertainty is discouraging investment and is thus detrimental to the UK economy. Unfortunately, Article 50 provides no immediate legal way out of the political stalemate. It is entirely up to the departing member state to trigger Article 50 by issuing formal notification of its intention to leave. Equally, there is nothing in Article 50 that obliges the European Union to start talks before formal notification has been made.

The period of deadlock may be necessary anyway, since the stipulated two-year timeframe seems optimistic given the major task of dissolving the United Kingdom's legal intertwining with the European Union – which requires the renegotiation of more than 80,000 pages of EU agreements, inevitably clogging up Parliament for years.

It remains to be seen when the UK government will resolve the deadlock and actually trigger Article 50. Therefore, years of *pro forma status quo* for the United Kingdom as a regular EU member state lie ahead, leaving uncertainty about the future of the relationship between the European Union and the United Kingdom.

Impact on existing patent regime in Europe

Under the existing regime in Europe, applicants may choose between two filing routes: ordinary national filings and centralised filings to

European Patent Office (EPO). The ordinary national filing systems will not be affected by Brexit – but what about the European Patent Convention (EPC) route?

The EPO examines patent applications according to the EPC, which is an international agreement between 38 European contracting states, including all EU member states. This illustrates that the term 'European' in connection with the EPC is meant geographically, rather than politically, and that the EPC is unrelated to the European Union and not part of EU law; nor are the national patent systems. Consequently, even if the United Kingdom eventually leaves the European Union, this will affect neither its EPC membership nor the EPC system itself.

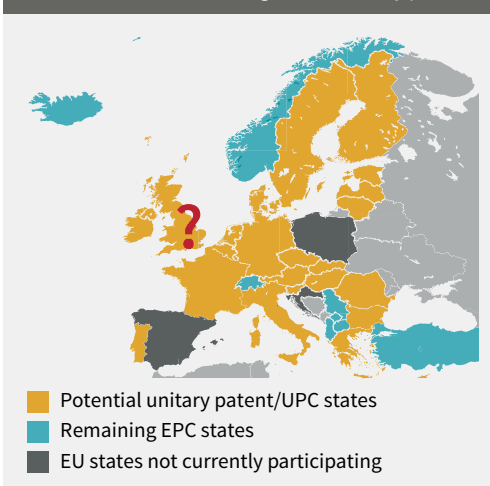
Thus, with regard to patent filing in Europe, the good news for applicants around the world is that they may not need to adjust their filing strategies in the aftermath of the Brexit decision.

Remaining deficiencies of existing European patent regime and unitary patent/UPC package

Despite the success of the EPC over the past 43 years, the patent landscape in Europe still lacks a single pan-European patent enforceable in a single court system, as the EPC is essentially only an administrative centralised grant procedure. Thus, although granting so-called 'European patents', the EPO effectively renders only a bundle of national patents that, while having the same claims, are still to be enforced on a national basis. Unlike the substantive patent law regarding patentability, the procedural law for patent infringement is not harmonised in Europe and Article 69 of the EPC provides only a general guideline for claim interpretation. Therefore, patentees trying to enforce their European patents will face high costs for multiple litigations, which will often result in diverging decisions at different points in time. The EPC is therefore not a complete patent system for Europe and above all a rather expensive endeavour – in particular, if patent protection in many or all 38 EPC member states is desired or needed.

The future unitary patent/UPC system was conceived to remedy these deficiencies. It is legally established by the so-called 'unitary patent/UPC package', consisting of two EU regulations and an international agreement which is open only to EU member states. The unitary patent/UPC system will factually supplement the EPC granting system through the creation of a European patent with unitary effect (the unitary patent) and a pan-

FIGURE 1. Territorial coverage of the unitary patent





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“As it is unclear how long it will take for the United Kingdom to exit the European Union, the outstanding ratification of Germany and Italy will be crucial in determining how much of the currently strong political momentum towards the unitary patent/UPC will survive”

European court system (the UPC).

The unitary patent basically builds on the EPC, with no changes to the pre-grant phase. The unitary patent is therefore a post-grant option for a patent granted by the EPO. As such, it benefits from the established EPO system and adds no further examination costs. Regarding annuities after grant, the unitary patent is designed to have a superior coverage/costs ratio, compared with the classic EPC patent, in the 25 EU member states participating in the unitary patent/UPC system. Therefore, the unitary patent will be a cost-attractive choice for applicants seeking broad patent protection coverage in Europe.

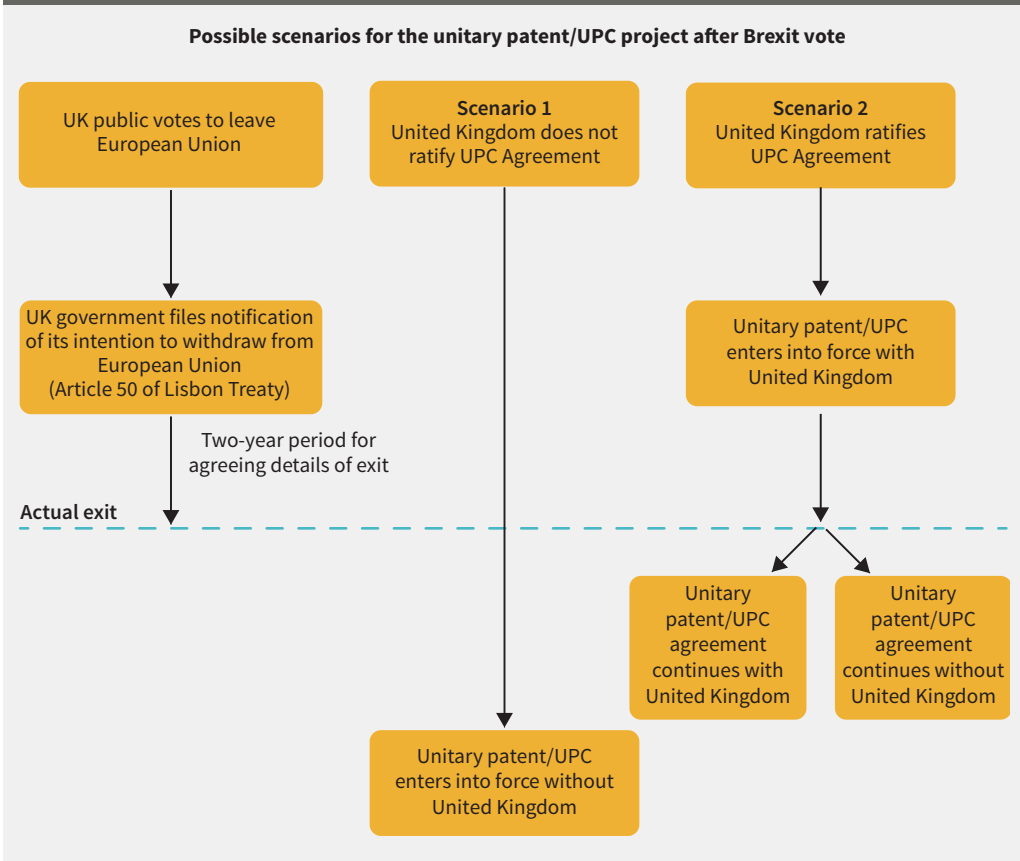
The UPC – although complex in structure, with centralised and decentralised first-instance divisions and multiple procedural languages – will effectively provide for the desired pan-European enforcement decision at moderate costs comparable to those for litigation in Germany, where more than two-thirds of patent infringement cases in Europe currently take place. The UPC's rules of procedure provide for a front-loaded written procedure with a one-day oral hearing, ultimately rendering a first-instance decision within one year.

However, one controversial feature is that the future UPC is intentionally designed to have exclusive competence in respect of the new European patents with unitary effect and classic European patents alike. This 'extended' exclusive competence of the UPC will therefore allow for a central UPC nullity attack against a bundle of 25 existing and future classic European patents. As a compromise that takes into account the interests of patent owners that do not want to see their valuable classic bundle patents being subject to this new and untried court system, the UPC Agreement provides for a transitional period of at least seven years, during which patentees may opt out their classic European patents from the UPC's exclusive competence. However, since opt-out is possible only as long as no action against the patent is pending before the UPC, patent owners around the world are forced to review their complete patent portfolios for opt-out candidates in good time before the actual start of the UPC.

Impact of Brexit on future of unitary patent/UPC package

After years of preparation, the entry into force of the unitary patent/UPC package depends solely on ratification of the UPC Agreement. For successful ratification of the agreement, 13 member states of

FIGURE 2. Fate of the unitary patent/UPC project



the 25 signatory states must ratify, including the member states with the most European patents in 2012 – Germany, France and the United Kingdom, with Italy ranking fourth.

Thus far, 10 states, including France, have ratified. The United Kingdom was close to ratifying the UPC Agreement, and with Germany expected to ratify shortly after the United Kingdom, it was likely that the UPC would have become operational by the start of 2017. However, after the Brexit referendum, the United Kingdom’s ratification became uncertain – although still possible. Thus, there are basically two possible scenarios, as illustrated in Figure 2.

United Kingdom does not ratify before leaving European Union

As long as the United Kingdom is a EU member state, the missing ratification of the United

Kingdom will block the entire unitary patent/UPC project, possibly for years. If the United Kingdom then eventually exits the European Union, the UPC Agreement may enter into force within four months, provided that 13 member states – including Germany and Italy, which will then automatically replace the United Kingdom – have ratified by then.

The solution to overcome the blockage would be a renegotiation of the UPC Agreement and its ratification mechanism to proceed with the unitary patent/UPC, but without the United Kingdom. This may be unlikely, as it would ultimately require re-ratification by all signatory states that have ratified thus far, including a new referendum in Denmark.

As it is unclear how long it will take for the United Kingdom to exit the European Union, the outstanding ratification of Germany and Italy

will be crucial in determining how much of the currently strong political momentum towards the unitary patent/UPC will survive until then. Moreover, the attractiveness of the unitary patent/UPC system for patentees will certainly be reduced if (besides Spain, Poland and Croatia) the United Kingdom – as the second-largest European economy – is missing. So no matter whether the United Kingdom blocks the ratification process of the UPC Agreement or the agreement is renegotiated in order to start without the United Kingdom, it will in any event delay the start of the unitary patent/UPC system for years.

United Kingdom ratifies and subsequently leaves European Union

The UPC preparatory committee and the EPO select committee are continuing their preparations for the unitary patent/UPC despite the Brexit vote. Thus, if the United Kingdom ratifies as planned or with only a few months' delay, the unitary patent/UPC system may enter into force within four months of that date and possibly start in 2017.

If the United Kingdom subsequently leaves the European Union, this will not affect the existence of the unitary patent/UPC system; some experts even contend that it is legally possible to keep the United Kingdom in the system after its exit from the European Union. Therefore, the UK government may decide to ratify the UPC Agreement as planned to keep all options open during exit negotiations and to safeguard the start of the UPC, including a section of the central division in London, for which premises have already been leased.

Of course, fast UK ratification is the scenario that most supporters of the unitary patent/UPC system prefer. This is unsurprising, as many professionals across Europe have been engaged with the UPC project for at least the past 17 years and believe (or hope) that the work on the unitary patent and the UPC is too far advanced and has developed too much momentum for the project to come to a halt.

On the other hand, besides basic legal questions of whether the United Kingdom may continue to participate in the unitary patent/UPC system as a non-EU member state, ratification by the UK Parliament seems politically inconsistent with the vote to leave the European Union in order to avoid the jurisdiction of the European Court of Justice.

Thus, although clearly favoured by UK businesses, it remains to be seen whether the UK government has sufficient political will to pursue ratification of the UPC Agreement.

Comment

The exit of a member state from the European Union is without precedent. However, the exit procedure under Article 50 of the Lisbon Treaty seems strikingly simple. The intention to exit needs to be formally notified to the European Council, which triggers a two-year (extendable) deadline for negotiations over the future relationship between the exiting state and the European Union. The negotiation positions of the United Kingdom and the European Union are clear, but unfortunately adversarial. Thus, it is currently an open question as to when exit negotiations will start, how long they will take and what the outcome will be.

Although it is clear (and comforting) that an ultimate Brexit will have no impact on the current patent system, the outcome of the referendum unfortunately has an immediate impact on the long-awaited unitary patent/UPC project. Since the prospects of UPC Agreement ratification by the United Kingdom have become uncertain in the wake of the referendum – and as IP matters usually do not rank high on government agendas, especially not at times of epoch-making changes – at least a substantial delay in the unitary patent/UPC project is to be expected. Even if the system eventually enters into force, it is currently unforeseeable as to whether it will do so with or without the United Kingdom.

Positively viewed, the delay will allow applicants and patentees around the world more time to prepare for the possibility of unitary patents and the UPC system than was expected before the memorable date of June 23 2016. *iam*



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