Can the Unified Patent Court be saved?

In the last week of March we presented a Legal Report concerning the system of unitary patent protection in the European Union. We reported for you on two latest developments that put into question the future of the project which was a work in progress for a few decades: beginning with the decision of the British government to withdraw from the UPC Agreement, and ending with the judgment of the German Federal Constitutional Court (BVerfG) that declared that an act expressing Bundestag's consent to be bound by the treaty was void. While the recent Report was written immediately in the wake of those events, at this moment, when a month has passed since the announcement of the significant ruling of BVerfG, we would like to present you a detailed analysis of this situation from a legal point of view, wherein we attempt to find an answer to the question: „what comes next for the UPC?" — are we dealing with just a misstep on the long road to implementation of the UPC system, or have we actually come to a standstill?

The German Government presents its position

It is worth to start by taking note of an official announcement made by the German Government. In response to the decision of the Federal Constitutional Court, the Federal Ministry of Justice and Consumer Protection confirmed that it continues to support the

UPC. On March 26 Minister of Justice Christine Lambrecht declared that Germany will continue its efforts to make the system a reality, and she committed to submit appropriate bill for a vote to Bundestag before the end of the current legislative term. Lambrecht affirmed that the government would closely examine the judgment of the BVerfG of March 20 and consider possibilities of rectifying the procedural flaws identified by the Court based in Karlsruhe.

Antonio Campinos, president of the European Patent Office (EPO) made an official announcement on the following day: he expressed his approval for the declaration of the German Government. He underscored that in the face of economic crisis resulting from the Covid-19 pandemic, it is especially crucial to take measures that would back up the European industry. He pointed out that, taking into account the fact that the IP-intensive industries contribute 45% of GDP in the EU annually and 39% of all jobs on the territory of the EU, the unitary patent protection could play a vital role in that field, especially the establishment of the UPC which would offer "reduced costs, simplified administration and greater legal certainty".

Let us remind you: the BVerfG reached a conclusion that the German act concerning the state's consent to be bound by the Agreement on the UPC is void, because of a failure to meet a formal requirement of a majority of 2/3 deputies. This condition has been formulated in Article 79 Section 2 in connection with Article 23 Section 1 of the German Basic Act (*Grundgesetz*): international treaties that are supplementary or otherwise closely tied to the EU integration agenda have to be adopted by a majority of 2/3 votes of Bundestag members. Therefore the aforementioned official declarations paint a picture that might inspire optimism. One can infer from those statements that a correction that needs to be introduced is essentially of arithmetic nature. All that is necessary is to organize another vote and make sure that a sufficient number of deputies will support the bill and from there we would almost immediately reach the long-awaited fruition of the European unitary patent protection system. Even though such determination undoubtedly should be appreciated, it is worth to take a sober look why the future of the UPC is dependent on more than a few factors other than solely the matter of securing a sufficient majority in Bundestag.

The BVerfG has not reviewed all of the objections raised in the constitutional complaint

As we wrote in our previous Legal Report, the constitutional complaint filed by the German lawyer Ingve Stjerna against the German act concerning the state's consent to be bound by the Agreement on the UPC, raised objections that were reaching beyond formal transgressions regarding the vote of Bundestag. The plaintiff addressed other issues as well, such as a fundamental change of circumstances that occurred in the period between conclusion of the treaty and its entry into force, i.e., Brexit and the United Kingdom's withdrawal from the system of unitary patent protection; he also indicated a problem of personal changes in the EPO that cast serious doubts on its independency. While the BVerfG thoroughly evaluated the first one of the objections, it virtually refrained from mentioning others in its ruling — it is reasonable from the point of view of judicial economy: if a case could have been definitely adjudicated upon a review of one of more claims, the Court was not obliged to examine other claims. Nonetheless, because of that some of dilemmas remain unsolved.

Does the Agreement on the UPC remain valid despite the UK's withdrawal?

This fact needs to be stated in the clearest terms possible: the treaty without the United Kingdom is not the same treaty that parties have negotiated and 15 among them have subsequently ratified it. It is necessary to remember that, according to its Article 89, its entry into force is contingent on the deposit of instruments of ratification or accession by 13 states, 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 took place. Those three states are obviously the UK, Germany and France. The architects of the Agreement on the UPC must have fully realized the pivotal role of those states and their participation in the system must have undeniably been its fundamental premise. The parties that took part in negotiations and expressed their consent to be bound by the treaty, based their actions on an assumption that the system would include all the key players in Europe; now we already know that it is not going to happen.

The Vienna Convention on the law of treaties of 1969 (VCLT) contains provisions that resolve how existence and performance of a treaty can be affected by a fundamental change of circumstances. A fundamental change of circumstances which has occurred with regard to those existing at the time of the conclusion of a treaty, and which was not foreseen by the parties, may be invoked as a ground for terminating or withdrawing from the treaty if the existence of those circumstances constituted an essential basis of the consent of the parties to be bound by the treaty; and the effect of the change is radically to transform the extent of obligations still to be performed under the treaty (Article 62 Section 1 of the VCLT). Next, a reservation is formulated: a fundamental change of circumstances may not be invoked as a ground for terminating or withdrawing from a treaty if the treaty establishes a boundary; or if the fundamental change is the result of a breach by the party invoking it either of an obligation under the treaty or of any other international obligation owed to any other party to the treaty (Article 62 Section 2 of the VCLT). If the Agreement on the UPC was in fact already in force, the scenario in which contracting states decide to make use of such a backdoor would be highly plausible. However the situation that we have to assess is quite different: the treaty that we are concerned about, has not yet come into force.

A point needs to be made that since a fundamental change of circumstances is a premise that permits states to liberate themselves from the obligations stemming from a treaty that is already binding on them, when such a change occurs, it should be all the more acceptable to withdraw a consent to be bound by a treaty that is not yet effective.

Duties of states in a time between consenting to be bound by a treaty and its entry into force, are laid down by Article 18 of the VCLT — this provision includes a general prohibition on acts which would defeat the object and purpose of a treaty. Judging purely intuitively, we might assume that a withdrawal of one's consent could have been considered such an act, yet in that respect international law accords priority to a sovereign will of a state — after signing a treaty, it is not obliged to ratify it and likewise, before it enters into force, it is free to announce that it withdraws from it. The legal literature mentions that it is not a matter that the VCLT addresses directly, however lack of prohibition is commonly interpreted as a permission and in practice it is widely recognized that states are entitled to make use of such a prerogative. Only when a treaty becomes effective in the meaning of Article 24 of the VCLT, the considerable limitations are imposed upon a state's

freedom of action — terminating or withdrawing from the treaty requires following a special procedure established by the Convention.

In brief, the United Kingdom was allowed to withdraw its consent to be bound by the Agreement and nothing stands in the way of other states following in its footsteps. From a pragmatic point of view, once a delicate, hard-won compromise has collapsed like a house of cards, it would not be sensible to expect that a few parties would not jump on opportunity to fight for guaranteeing new terms that would be more advantageous to them. It is commonly known that the development of unitary patent protection in the EU revealed a number of disputable issues that could not be resolved in a fashion that all the parties would be satisfied with — for instance, a problem of determining into which languages patents should be translated. One cannot forget that the project has not been abandoned only by the UK; there are other European states that do not take part in it, such as Spain, Poland, Hungary and Czech Republic (when it comes to the two former states, they refused to sign the Agreement, while the two latter ones — did not ratify it) — the lack of consensus is most clearly displayed by the fact that the European states interested in developing the UPC, had to refer to the mechanism of enhanced cooperation that allows them to take actions without those member states that for some reasons do not want to deepen their integration in specific fields.

Need to relocate London branch of the UPC Central Division

The provision of Article 7 of the Agreement on the UPC states that the Court of First Instance is divided into several specific divisions: a central one that shall have its seat in Paris, sections that shall be based in London and Munich, as well as local and regional divisions. Withdrawal of the United Kingdom raises a pressing problem of designating a new seat for a branch that was supposed to be located in London; it is worth adding that it was previously decided that it shall be specialized in cases falling into domain of life sciences, including cases involving pharmaceuticals.

Therefore even for this practical reason the Agreement on the UPC cannot persist in an unchanged shape. Making new arrangements in this field is imperative, and even though we can already encounter speculations of emergence of candidates to replace

London, such as the Hague or Milan, we cannot escape the necessity of revising the current text of the Agreement. This way we return to the level of national parliaments that will have to once again approve the treaty, this time in its modified version. It becomes crystal clear that guaranteeing the required majority in Bundestag is not enough; deputies in other states that expressed their willingness to participate in the system of unitary patent protection are going to vote as well — which can mean an opening of an entirely new chapter.

The controversies regarding Article 20 and Article 21 of the Agreement on the UPC remain

In our previous Legal Report we mentioned that the Agreement on the UPC contains several provisions that closely integrate the Unified Patent Court with the legal order of the European Union: namely Article 20 and Article 21. According to Article 20 of the Agreement, The Court shall apply Union law in its entirety and shall respect its primacy. As for Article 21, it resolves that as a court common to the Contracting Member States and as part of their judicial system, the Court shall cooperate with the Court of Justice of the European Union to ensure the correct application and uniform interpretation of Union law, as any national court, in accordance with Article 267 TFEU (preliminary rulings) in particular; decisions of the Court of Justice of the European Union shall be binding on the Court.

We have demonstrated recently that this regulation was precisely what raised the gravest concerns among the British, and it proved to be an ultimate argument for their withdrawal. It would be difficult to reconcile Brexit and a consent to remain in the jurisdiction of the CJEU, no matter if limited to cases relating to patent protection.

Reservations towards those articles of the Agreement were not voiced only by the UK. The primacy of EU law is a rule established by the CJEU in its body of rulings and it is not directly inscribed in the treaties (there were plans to enshrine it in the Constitutional Treaty which has not eventually entered into force and it was abandoned from the Treaty of Lisbon); meanwhile the Agreement on the UPC introduces it expressly — it may lead to

some doubts of a constitutional nature when it comes to several states. It is regrettable that the Federal Constitutional Court did not use this opportunity to present its stance on this subject — perhaps a subsequent bill will be adopted successfully by Bundestag, but one cannot rule out a possibility that another complaint, this time based solely on substantive objections instead of formal, would be filed in a near future. The only outcome of such a complaint that can be expected with absolute certainty is another delay in implementation of the system.

Final remarks

We are convinced that the verdict of the BVerfG of 20 March cannot be interpreted in such a manner that all that is needed to move ahead with the UPC project is to secure a majority required by the German Basic Act when a subsequent project of an act expressing Germany's consent to be bound by the Agreement is submitted to a vote. If a majority of 2/3 deputies votes for the project, the light will not change at once to green and we will not find ourselves on the fast track to the UPC, since at the moment when the UK withdrew — first from the EU, then from the UPC, we have inevitably deviated from this route. The treaty without the UK as one of its parties must undergo profound revisions which in turn require acceptance of national parliaments of the member states. And since the power structure and the circumstances have changed, the revisions will surely reach further than a simple substitution of London by the Hague or Milan: the negotiating table should see a return of other issues that have been considered already solved for a long time.

