

## EUROPEAN UNION

**Dr Marc Mimler, LL.M (London)**

Senior Lecturer in Law, Bournemouth University

Correspondent for the European Union

### **The final nail in the coffin for the patent with unitary effect or just another bump in the road? The German Constitutional Court declares void the German Act of Approval on a Unified Patent Court (2 BvR 739/17) Introduction**

In the midst of the rising COVID-19 crisis, the German Federal Constitutional Court (Bundesverfassungsgericht) published its long-awaited decision which was triggered by a constitutional complaint against the *Act of Approval to the Agreement on a Unified Patent Court* (“the *Act of Approval*”) on the 20 March 2020. By means of an order, the constitutional judges in Karlsruhe decided that the *Act of Approval* was void. This means that full implementation of the “Unitary Patent package”, which consists of two European Union (“EU”) Regulations and the *Agreement on a Unified Patent Court* (“UPCA”), suffered a significant setback, if not even a fatal blow. Until now, 16 other participating EU Member States have already ratified the UPCA including the United Kingdom (“UK”) which recently however took the decision not to take part in this project because of Brexit. The non-participation of Germany as one of the major patent jurisdictions within the proposed framework would cast serious doubts over the viability of the nascent system. But calls to scrap the entire project may be premature since the German Federal Government responded to the verdict of the Constitutional Court by declaring its continued willingness to take part in the Unitary Patent package.

**Background** The Unitary Patent package is the latest of several attempts to create a European patent system under the auspices of the EU. While the *European Patent Convention* (“EPC”), signed in 1973, can be regarded as the successful outcome of early ideas to establish a common system for registering patents within Europe outside the EU framework, it did not provide for unitary patent rights among the contracting member states. The EPC system operates by having a central granting office, the European Patent Office (“EPO”), applying a common standard for rules of patentability pursuant to which patent applications might be filed. Once granted, the patent holder would enjoy protection in the contracting member states of the EPC designated in the application, while enforcement of such patents would be subject to the applicable national law. The importance of the EPC for harmonising patent law in Europe is increased due to the incorporation of its substantive provisions on patentability into many national patent laws of EPC contracting states. Attempts by the EU and its predecessor to provide for unitary patent rights similar to those currently provided for trade marks<sup>1</sup> and designs<sup>2</sup> have not yet come to fruition. After the

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<sup>1</sup> Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark (OJ 2017 OJ L 154 1).

<sup>2</sup> Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs (OJ 2002 L 3, 1).

conclusion of the *Treaty establishing the European Economic Community* (“*EEC Treaty*”)<sup>3</sup>, the young European Economic Community (“*EEC*”) saw patents as an important field of activity and set up a Working Group “*Patents*” in 1959. The *EEC Treaty*, however, did not foresee a special competence to legislate for unitary rights which explains why the earliest attempt to do so was concluded as an international agreement between the member states. The rationale of the Community’s first attempt to set up unitary patent rights, the 1975 *Community Patent Convention* (“*CPC*”), was based on safeguarding the free movement of goods protected by patents, and hereby eliminating trade distortions within the Community. The Community Patent system was eventually planned to be operating alongside the wider EPC with the EPO as the granting office of Community patents. The first version of a CPC, however, never came into force due to the failure of some countries to ratify it. Later attempts to revive the project, such as the 1989 CPC<sup>4</sup> or the Commission’s proposal for Community Patent Regulation in 2000,<sup>5</sup> also failed.

New momentum was gained after the Council of the EU authorised enhanced cooperation<sup>6</sup> with respect to the creation of unitary patent protection. This eliminated the deadlock caused largely due to the translation regime of prospective patents of the EU. Spain and Italy initially sued against the decision to apply enhanced collaboration but the Court of Justice of the European Union (“*CJEU*”) dismissed the case. The result of these efforts is the Unitary Patent package which includes three legislative measures: two EU Regulations (one on the creation of a patent with unitary effect<sup>7</sup> and another on the translation regime<sup>8</sup>) and one international agreement between the participating Member States on a centralised court system, the UPCA.<sup>9</sup> The EPO would be granting the patents with unitary effect. The court system foresees a court of first instance which is divided in national, regional and a central division and would oversee litigation over the validity and infringement of patents with unitary effect as well as existing and prospective national European Patents of contracting Member States.

While the two Regulations are technically already in force, their application is subject to sufficient numbers of ratification of the UPCA. The Agreement itself was signed by 25

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<sup>3</sup> *Treaty establishing the European Economic Community* opened for signature 25 March 1957 (entered into force 1 January 1958).

<sup>4</sup> 89/695/EEC: Agreement relating to Community patents - Done at Luxembourg on 15 December 1989 (OJ L 401 1).

<sup>5</sup> European Commission, “Proposal for a Council Regulation on the Community Patent” COM (2000) 412, 1 August 2000 (OJ 2000 C 337, 278); Commission of the European Communities, “Green Paper on the Community Patent and the Patent System in Europe”, 24 June 1997, COM (97) 314.

<sup>6</sup> Council Decision 2011/167/EU of 10 March 2011 authorising enhanced cooperation in the area of the creation of unitary patent protection (OJ 2011 L 76, 53).

<sup>7</sup> Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (OJ 2012 L 361, 1).

<sup>8</sup> Council Regulation (EU) No 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements (OJ 2012 L 361 89).

<sup>9</sup> *Agreement on a Unified Patent Court* <<https://www.unified-patent-court.org/sites/default/files/upc-agreement.pdf>>.

Member States (excluding Spain, Poland and Croatia) on 19 February 2013.<sup>10</sup> Importantly, the UPCA prescribes that it enters into force where at least 13 of the 25 signatory states ratify the Agreement and deposit the instrument of ratification or accession pursuant to Article 89(1) of the UPCA. In addition, Article 89(1) mandates that “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 Agreements” need to be among these Member states who ratify the Agreement. These Member States were Germany, France and the UK. Brexit, has now led to the UK’s non-participation in the Unitary Patent package,<sup>11</sup> so the decision on the German *Act of Approval* was anxiously awaited by the patent community in Europe and beyond.

**The decision** The German Federal Constitutional Court commenced its analysis by tracing the inception and development of the Unitary Patent package. The Court then engaged with the substance of the constitutional complaint at hand. The complainant, inter alia, alleged the violation of his right of democratic self-determination pursuant to Article 38(1) of the *German Constitution* (the “*Basic Law*”)<sup>12</sup> in conjunction with Articles 20(1), 20(2) and 79(3) of the *Basic Law*. In a nutshell, the point raised here by the complainant was that the requirement for a qualified, i.e. two-thirds majority, for ratifying the *Act of Approval* within the German federal parliament, the Bundestag, as prescribed by Articles 23(1) and 79(2) of the *Basic Law*, was not met. The German *Basic Law* prescribes that an act of approval to an international treaty relating to the EU’s integration agenda must be compliant with Article 23(1) of the *Basic Law* in conjunction with Article 79(2) of the *Basic Law*. This means that a two-thirds majority in both federal parliamentary chambers, i.e. the Bundestag and the Bundesrat, (the second federal parliamentary body representing the 16 federal German states) are necessary where an Act amends or supplements the *Basic Law* or makes such amendments and supplements possible.

The Constitutional Court found the complaint to be permissible<sup>13</sup> and justified on this point. The UPCA would fall within the scrutiny of Article 23 (1) of the *Basic Law* since it would confer judicial functions to a supranational court and the decision taken by such court would be enforceable within Contracting Member States of the Agreement.<sup>14</sup> The Court also noted that the UPCA would be part of the European Integration process albeit its nature as a supranational treaty.<sup>15</sup> The Court further explained that since the powers transferred to a subject

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<sup>10</sup> Council of the European Union, “Minutes of the signing of the Agreement on a Unified Patent Court” 19 February 2013 6572/13.

<sup>11</sup> Joff Wild, “The UK will not be part of the UPC, government confirms to IAM” *IAM-Media*, 27 February 2020

<<https://www.iam-media.com/law-policy/uk-no-upc>> .

<sup>12</sup> Article 38(1) of the *Basic Law* states:

*Members of the German Bundestag shall be elected in general, direct, free, equal and secret elections. They shall be representatives of the whole people, not bound by orders or instructions and responsible only to their conscience.*

The Court elaborated that this provision would not only encompass the formal legitimacy of federal state power conferred by the right of free elections but would also cover the right of citizens to be subjected only to public authority which they can legitimise and influence [135].

<sup>13</sup> The other complaints related to the selection of the judges of the Unified Patent Court, the Unified Patent Court’s Administrative Committee’s powers to adopt rules of procedure for the Court without the necessary democratic legitimation and a violation of EU law – Bundesverfassungsgericht BVerfG 2 BvR 739/17 [103].

<sup>14</sup> Bundesverfassungsgericht BVerfG 2 BvR 739/17 [143]

<sup>15</sup> Bundesverfassungsgericht BVerfG 2 BvR 739/17 [144] – [155]

of international law cannot simply be “retrieved”, a special level of legitimacy in form of a two-thirds majority in both chambers would be required.<sup>16</sup> Against this background, German citizens can claim that the transfer of sovereign powers needs to conform with the procedures of the *Basic Law* in order to preserve their rights of democratic participation in the European integration.<sup>17</sup> Without such effective conferral of sovereign powers, the subsequent measures taken by the EU or a supranational organisation would lack democratic legitimacy.<sup>18</sup>

Consequently, the Court found that the *Act of Approval* conflicted with the *Basic Law* since it was approved without the required two-thirds majority of the members of the Bundestag.<sup>19</sup> While the legislative draft of the Act was adopted unanimously by the Bundestag in its third reading on 27 March 2017, only about 35 of its Members were present when the final vote was cast.<sup>20</sup> The Court also noted that neither the presence of the required quorum had been determined pursuant to § 45 (2) of the *Rules of Procedure of the Bundestag*, nor did the President of the Bundestag declare that the *Act of Approval* had been adopted by a qualified majority pursuant to § 48 (3) of the *Rules of Procedure of the Bundestag*.<sup>21</sup> The Court found the remaining grounds for complaint to be inadmissible. Finally, three justices provided a dissenting opinion finding that the “right to democracy” would not give rise to a right that formal requirements for the conferral of sovereign powers be adhered and “would obstruct and narrow the political process in the context of European integration”.<sup>22</sup>

## Comment

The Unitary Patent package had a bumpy start when it was finalised in 2012 and the Brexit vote in 2016 cast serious doubt over its future.. Initially, the UK Government signalled its willingness to participate in the project from outside the EU’s framework even though this created legal and political complications. Hence, the UK Government’s decision earlier this year to abandon the project at least provided some clarity. The stalling ratification by Germany provides yet another setback though arguably not of insurmountable nature. Along these lines, the Preparatory Committee of the Unified Patent Court stated that “[d]espite the fact that the judgement will result in further delay the preparatory work will continue, while the judgement and the way forward is further analysed.”<sup>23</sup> Wouter Pours mentions that it might be a blessing in disguise that the Constitutional Court based its verdict on formal issues. The other

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<sup>16</sup> i.e. in accordance with Article Art. 23(1) second and third sentence in conjunction with Article 79(2) Basic Law – Bundesverfassungsgericht BVerfG 2 BvR 739/17 [97].

<sup>17</sup> Bundesverfassungsgericht BVerfG 2 BvR 739/17 [98].

<sup>18</sup> Bundesverfassungsgericht - Press Release No. 20/2020 “Act of Approval to the Agreement on a Unified Patent Court is void” (20 March 2020)

<<https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2020/bvg20-020.html>> .

<sup>19</sup> Bunderverfassungsgericht BVerfG 2 BvR 739/17 [162] – [164].

<sup>20</sup> Oddly, this was assessed by looking at the video file of the relevant proceedings at the Bundestag – Bunderverfassungsgericht BVerfG 2 BvR 739/17 [27].

<sup>21</sup> Bunderverfassungsgericht BVerfG 2 BvR 739/17 [27].

<sup>22</sup> Bundesverfassungsgericht - Press Release No. 20/2020 “Act of Approval to the Agreement on a Unified Patent Court is void” 20 March 2020

<<https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2020/bvg20-020.html>> .

<sup>23</sup> Preparatory Committee of the Unified Patent Court “Federal Constitutional Court – decision” (20 March 2020) <<https://www.unified-patent-court.org/news/federal-constitutional-court-decision>>

complaints<sup>24</sup> brought forward which were found to be inadmissible would have had more impact on the process of the Unitary Patent package as they would have required a revision of the UPCA.<sup>25</sup> The problem here is that the Court found these issues to be inadmissible as they had not been substantiated by the claimant and therefore not assessed by the Court which risks these being brought forward again in different form. Nevertheless, the German Government has announced its willingness to pursue the project<sup>26</sup> though the UPCA would warrant revision to take into account the UK's departure from the project<sup>27</sup> and it may also not be a top priority in the current COVID-19 crisis.

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<sup>25</sup> Wouter Pors, "German Constitutional Court declares the vote on the ratification act of the UPC Agreement unconstitutional because of a lack of the required quorum" <<https://www.twobirds.com/en/news/articles/2020/germany/German-Constitutional-Court-declares-the-vote-on-the-ratification-act-of-the-UPC-Agreement>>.

<sup>26</sup> Bundesministerium der Justiz und für Verbraucherschutz, "Europäische Patentreform soll fortgesetzt werden", press release, 26 March 2020) <[https://www.bmjuv.de/SharedDocs/Pressemitteilungen/DE/2020/032620\\_Patentreform.html](https://www.bmjuv.de/SharedDocs/Pressemitteilungen/DE/2020/032620_Patentreform.html)>.

<sup>27</sup> Thorsten Bausch, "Federal Constitutional Court voids the German UPCA Ratification Law" *Kluwer Patent Blog*, 20 March 2020 ) <<http://patentblog.kluweriplaw.com/2020/03/20/federal-constitutional-court-voids-the-german-upca-ratification-law/>>.