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EDITORIAL

Eyes Wide Shut

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1 In July of 2018, Her Majesty's Government published a white paper on the future relationship between the United Kingdom and the European Union[1] stating that the UK has ratified the Agreement on a Unified Patent Court[2] and is now exploring ways to remain involved, even after its withdrawal from the Union, in the unified patent judiciary *and* the system of unitary patent protection.[3] In Germany, the ratification process is on hold. The Federal President has postponed signature on

[1] Her Majesty's Government, "The Future Relationship between the United Kingdom and the European Union" (Cm 9593), (London 2018), para. 151.

[2] Agreement on a Unified Patent Court (UPCA and UPC), OJ C 175 (20 June 2013), p. 1.

[3] Regulation (EU) No. 1257/2012, OJ L 361 (31 December 2012), p. 1; Regulation (EU) No. 1260/2012, OJ L 361 (31 December 2012), p. 89; both based on Council Decision 2011/167/EU, OJ L 76 (22 March 2011), p. 53.

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account of a constitutional complaint that was filed in March 2017.[4] A ruling from the Federal Constitutional Court is not to be expected before 2019.

For better or worse, that ruling will determine whether the UPCA can enter into force[5] and, concomitantly, the regulations implementing enhanced cooperation in the field of unitary patent protection, in force since 2013, can become applicable.[6] It is on the basis of these regulations that patentees will be able to request "unitary effect" in the participating Member States for European patents granted by the European Patent Office (EPO).

Meanwhile, it's business as usual. The majority of those with an interest in the European patent system hold on to the belief that the UPCA is compatible with Union law and that Brexit poses no existential danger in that regard, while those who bear political responsibility for the patent system nailed their colours to the mast long ago. And yet this juncture would be particularly apposite to pause to take stock of the possible risks and side-effects. For the question of the legality of the UPCA will not be settled by the UPC taking up its work; much less so when the UPC is no longer intended to be a court common to the Member States of the EU,[7] but an international court administered by Member States and non-EU states. Until the Court of Justice of the European Union (CJEU) has clarified[8] whether the UPCA in general – and with participation of the UK in particular – is compatible with "the letter and spirit" of the Treaties,[9] the systemic risks arising from Union law will be a sword of Damocles hovering over the unified patent judiciary and, concomitantly, the entire unitary patent package.

By the same token, Brexit adds another layer of uncertainty to the compatibility of the UPCA with the constitutional law of its contracting states – and ultimately to the enforceability of decisions and orders of the UPC in those states. On that score, it should be pointed out that the constitutionality of the UPCA has a bearing on the entire regime. If the agreement should be declared void in France, Germany or the UK, or in more than 15 contracting states in all, not only the unified patent judiciary would become fair game, but – due to its accessory character – also the system of unitary patent protection.[10] From the perspective of the potential users of the envisaged judiciary, which will often be seized with complex high-value disputes,

[4] German Federal Constitutional Court (*Bundesverfassungsgericht*, BVerfG), Case 2 BvR 739/17.

[5] Art. 89(1) UPCA.

[6] Art. 18(2) Reg. 1257/2012 and Art. 7(2) Reg. 1260/2012 in conjunction with Art. 89(1) UPCA.

[7] Recital 7 and Art. 1 UPCA.

[8] For instance, in the context of a request by a national court for a preliminary ruling (Art. 267 TFEU) or an infringement procedure of the Commission (Art. 258 TFEU) or a Member State (Art. 259 TFEU) against the UPCA's contracting Member States. Requesting a further opinion by the CJEU pursuant to Art. 218(11) TFEU is not an option, since the EU is not a party to the UPCA.

[9] *See* M. Lamping and H. Ullrich, "The Impact of Brexit on Unitary Patent Protection and its Court" (Munich 2018).

[10] Art. 18(2) Reg. 1257/2012 and Art. 7(2) Reg. 1260/2012 in conjunction with Art. 89(1) UPCA. Hungary's Constitutional Court has made a first step in this direction by declaring the withdrawal of jurisdiction from national courts and its transfer to the UPC incompatible with the Hungarian constitution (*see* Decision of the Hungarian Constitutional Court of 26 June 2018, Case X/01514/2017).

and which should really be aimed at ensuring legal certainty in the interest of investments in innovation, this is not a particularly encouraging scenario.

2 The constitutional macro-level is our first focus. Prior to taking up its tasks, every court must in any given dispute ascertain that it has jurisdiction. In established justice systems, the question of whether a judiciary has been properly constituted according to existing constitutional and democratic norms recedes into the background. This is not the case here: the UPC is not an established, but a newly founded special judiciary. For this reason, a thorough assessment is needed of whether the divisions of its Court of First Instance – whose central division has its seat in Paris and sections in London and Munich – and its Court of Appeal are in fact properly constituted judicial bodies.

To begin with, it should be recalled that the UPC is conceived as an institution of the Member States of the EU. It is, by definition, a "court common to the Contracting Member States"[11] and as such "part of their judicial system".[12] Being thus situated within the judicial system of the EU, it cooperates with the CJEU in properly interpreting Union law and its decisions are subject to the measures, procedures and remedies provided for in the Treaties to ensure the full effectiveness of Union law. Whether that fiction holds is debatable. What is not debatable is that non-EU states may not bear responsibility for such a court or execute judicial power in the EU in accordance with the rule of law and fundamental democratic principles deriving from the common constitutional traditions of the Member States.

In view of that, Brexit puts a spoke in the wheels of the current ratification process. It substantively alters the contractual basis between the Member States for the constitution of the UPC and thus puts paid to the contractual procedure for the conclusion of the UPCA. A case that can serve as a precedent in this respect is the Federal Constitutional Court's decision not to adjudicate in the dispute before it regarding the Brussels version of the proposed European Constitution[13] following the failed referenda in the Netherlands and France, as the EU Member States at the time (2005) compacted to negotiate a new treaty. Applying the lessons learned in that case, it will only be possible for the UK to participate in the unified patent judiciary if the contracting states negotiate, sign and ratify a new agreement which explicitly provides for just this.[14] Considering the effects of Brexit on the character of the UPC, its status within the EU's judicial system, and its inclusion in the system of legal protection established by the Treaties,[15] bringing the current ratification process to a close is not an option.

In view of those considerations, it would be up to any constitutional court of a contracting state to assess whether the UPC is a proper judicial body, established

[11] Recital 7 and Art. 1 UPCA; *see also* Art. 71a Regulation (EU) No. 1215/2012, OJ L 351 (20 December 2012), p. 1, as amended by Regulation (EU) No. 542/2014, OJ L 163 (29 May 2014), p. 1.

[12] Recital 7 and Art. 21 UPCA.

[13] Treaty establishing a Constitution for Europe, OJ C 310 (16 December 2004), p. 1.

[14] Whether that would be compatible with Union law is another question altogether, *see* H. Ullrich, "The European Union's Patent System after Brexit: Disunited, but Unified?", in: M. Lamping and H. Ullrich (eds.), *supra* note 9, p. 58 *et seq.*; M. Lamping, "The Unified Patent Court, and How Brexit Breaks It", in: M. Lamping and H. Ullrich (eds.), *supra* note 9, p. 131 *et seq.*

[15] Art. 19 TEU; Art. 258 *et seq.* TFEU.

according to constitutional and democratic principles. A national court is required to rule on this in its own power of decision and responsibility, because the question of what has been transferred to the supranational level, and what was allowed to be so transferred, is a matter of national constitutional law. An aspect that in this context is highly significant is that an unfavourable ruling of the UPC can be of considerable and potentially existential relevance to the parties affected. The transfer of sovereignty to supranational institutions is by no means a "free pass" to neglect fundamental rights or to dissolve state obligations arising therefrom.[16]

3 In most Member States of the EU, coupled with the competence to review the constitutionality of legislative acts is a competence to revoke laws found to be unconstitutional.[17] The consequence of such a ruling is the invalidity or non-applicability of the law, usually with *erga omnes* effect. In some Member States it also has effect *ex tunc*. In principle, this means that all legal relations arising from the law that are declared unconstitutional and void lose their legal basis retroactively and may thus have to be rescinded.

In order to ensure the stability of the law and the sound administration of justice, the legal effects of constitutional decisions may be limited. In Germany, for example, it is provided that annulment of a law does not lead, beyond the concrete case at hand, to the invalidity of decisions handed down on the basis of this law. Non-appealable decisions remain unaffected, though they can no longer be enforced.[18] Exceptions are often provided for criminal and administrative offence proceedings; such proceedings can be reopened after their final conclusion.[19] The possibility of reopening finalized proceedings may also exist – as a matter of principle – for all cases dealt with on the basis of an unconstitutional law.[20]

Furthermore, constitutional courts are usually entitled to limit the temporal effect of their rulings, for instance by stipulating the invalidity or non-applicability of the law *ex nunc*, ordering its temporary continued application, or issuing only an appeal to the legislature. The court called upon decides on the temporal effect of its ruling at its own discretion, however, and against the background of a comprehensive balancing of interests, which may also include an assessment of whether or not the legislature can be attested to have a well-founded trust in the constitutionality of the legislation it has enacted.[21] In view of the ongoing debate about the compatibility of

[16] *See* S. Broß, "Überlegungen zu den Grundlagen von Staatenverbindungen", in: V. Bouffier et al. (eds.), "Grundgesetz und Europa (Liber Amicorum for Herbert Landau)" (Tübingen 2016), p. 29; *id*., "Wenn rechtsstaatlich-demokratische Ordnungsrahmen stören oder hinderlich sind – Überlegungen zur Entstehung von Parallelwelten", in: C. Hertel, S. Lorenz and C. Stresemann (eds.), "Simplex Sigillum Veri (Liber Amicorum for Wolfgang Krüger)" (Munich 2017), p. 533; *id*., "Rechtsschutz im Mehrebenensystem", VerwArch. (1992), p. 425.

[17] For a comparative study of the situation in the Member States of the EU, *see* F. Hufen, "Beschränkung von Urteilswirkungen im Fall der Feststellung der Verfassungswidrigkeit von Rechtsnormen, Teil 1: Rechtsgutachten" (im Auftrag des Bundesministeriums für Finanzen), (2008).

[18] Sec. 79(2) of the Act on the Federal Constitutional Court (*Bundesverfassungsgerichtsgesetz*, hereinafter: BVerfGG).

[19] *See e.g*. Sec. 79(1) BVerfGG.

[20] *See* F. Hufen, *supra* note 17, p. 75, footnote 170, with reference to the legal situation in Poland.

[21] For details, *see* F. Hufen, *supra* note 17, p. 83 *et seq*.; on the latter, p. 90 *et seq*., with reference to the legal situation in Ireland and Austria.

the UPCA with Union law and the increasing concerns about the constitutionality of transferring exclusive jurisdiction to the UPC, particularly in the light of the upcoming withdrawal of one of its contracting states from the EU, it seems hard to attest any legislature with a well-founded trust in the legality of the UPCA.

Hence, for a number of Member States, it cannot be ruled out categorically and from the outset that a constitutional complaint against the UPCA would have no impact on the decisions and orders issued by the UPC. The risk may be slight for already finalized proceedings; decisions yet to be enforced, however, are affected directly. Their execution can, by the way, also be temporarily suspended by way of interim relief.[22] Beyond the concrete dispute at hand, it is up to the court seized to suggest incidentally the suspension of pending proceedings before the UPC due to the lack of effect the rulings would have in the state concerned. In analogy to the rule in criminal and administrative offence cases it is even conceivable that certain proceedings before the UPC would have to be reopened if the outcome of the original (finalized) proceeding displays crucial relevance from a fundamental law perspective. After all, decisions and orders by the UPC encroach upon fundamental rights, be they the right to property, the right to an established and operating business or the rights encompassed in the general freedom of action. Such an intervention – especially in the form of an injunction – may have severe economic consequences for those affected.

4 While the constitutionality of the transfer of sovereignty to the UPC is a matter for each contracting state to determine for itself, the incompatibility of the UPCA with Union law affects all contracting states en bloc. The first question is, will this be determined in an infringement action against the contracting Member States of the UPCA or in a referral for a preliminary ruling – by, say, a national constitutional court called upon to review the legality of the UPCA, or by any other national court that is replaced by the UPC regarding its jurisdiction *ratione materiae*. Whereas a finding that a Member State has failed to fulfil an obligation under the Treaties applies *ex nunc*, a preliminary ruling has *ex tunc* effect.

The Court can limit the temporal effect of a judgment giving a preliminary ruling at the request of a Member State, but only exceptionally and under strict conditions.[23] It has taken such a step only where there was a risk of serious economic repercussions owing in particular to the large number of legal relationships entered into in good faith on the basis of rules considered to be validly in force, and where it appeared that both individuals and national authorities had been led to adopt practices that did not comply with Union law by reason of objective, significant uncertainty regarding the implications of Union law provisions, to which the conduct of other Member States or the Commission may even have contributed.[24] These two conditions must be given cumulatively.[25] The limitation of retroactive effect must furthermore be contained in the first ruling

[22] *See e.g.* Sec. 32 BVerfGG.

[23] Settled case law since judgment of the CJEU of 8 April 1976, *Defrenne*, 43/75, ECLI:EU:C:1976:56.

[24] Judgment of the CJEU of 11 August 1995, *Roders*, C-367/93 to C-377/93, ECLI:EU:C:1995:261, para. 43.

[25] *Ibid*., para. 48.

deciding on the interpretation of the relevant Union law.[26] These requirements are especially interesting in light of Opinion 1/09 of the Court of 8 March 2011,[27] whose consequences – specifically with respect to third-party states' participation in the judicial system – were seen to be fairly clear at the time of publication, though thanks to Brexit the view has become increasingly murky for some observers.[28] With the debate about the compatibility of the UPCA with Union law going on and Brexit on the horizon, it seems at least counterintuitive to give the contracting Member States any benefit of the doubt.

Although in the context of a preliminary ruling the CJEU may not rule on the compatibility of national law – or, for that matter, international law – with the Treaties, it has jurisdiction to provide the referring court with all the criteria of interpretation which may enable it to assess such compatibility on its own,[29] by clarifying the meaning and scope of the relevant Union law as it must be or ought to have been understood and applied from the date it entered into force.[30] Due to the principle of primacy, inconsistent national law is not applicable. Subject to a limitation of retroactivity ordered by the CJEU, the Member States are therefore bound to apply the Union law in the interpretation carried out by the Court also to those legal relationships arising and established before the preliminary ruling.[31] In consequence it follows that all legal relationships based on the incompatible law lose their legal basis after the fact. Those affected can rely upon that with a view to calling into question those relationships.[32]

5 This describes the macro-level of constitutional law. We shall not stop here, however, for in the meantime the CJEU – as the "constitutional court" of the EU – has taken action in two cases that deal with certain conditions and limits stipulated by the Treaties with regard to the design of supranational judicial systems within the ambit of the Internal Market.[33] Its findings have a general significance beyond the decided cases, as they treat the European community of values either explicitly or implicitly. It is obvious that a non-EU state, and thus an outsider, is not a member of that community and therefore may not exercise judicial power vis-à-vis people and institutions within the Union. The community of values presupposes solidarity among its members, which is precisely what Brexit is all about.

With this in mind, the patent prosecution procedure at the EPO must be scrutinized more closely. Unitary patent protection builds on the European patent granted by the EPO according to the rules of the European Patent Convention

[26] Judgment of the CJEU of 27 March 1980, *Denkavit*, 61/79, ECLI:EU:C:1980:100, para. 18.

[27] Opinion of the Court of 8 March 2011, *European and Community Patents Court*, 1/09, ECLI:EU:C:2011:123.

[28] *See* M. Lamping, *supra* note 14, p. 133 *et seq.*

[29] Judgment of the CJEU of 10 March 1983, *Inter-Huiles*, 172/82, ECLI:EU:C:1983:69, para. 8.

[30] Judgment of the CJEU of 27 March 1980, *Denkavit*, 61/79, ECLI:EU:C:1980:100, para. 16.

[31] *Ibid.*

[32] *Ibid.*, para. 17.

[33] Judgment of the CJEU of 6 March 2018, *Achmea*, C-284/16, ECLI:EU:C:2018:158; Judgment of the CJEU of 27 February 2018, *Associação Sindical dos Juízes Portugueses*, C 64/16, ECLI:EU:C:2018:117; for a comprehensive discussion of both decisions in a broader context, *see* T. Jaeger, "Gerichtsorganisation und EU-Recht: Eine Standortbestimmung", EuR (2018) (forthcoming).

(EPC).[34] If the patent application is refused, however, that's the end of the road. This raises fundamental concerns, for instance with regard to the discrimination of applicants in relation to their competitors (only the latter may take recourse to the UPC), but also concerning the design of the legal protection system within the EPO or the protection of fundamental rights of EPO employees (which is outsourced to the International Labour Organization). At any rate, it cannot be ruled out that the EU, by adopting a patent granted within the framework of the EPO according to the rules of the EPC, is espousing a "product" that came into being through a procedure that is partially incommensurate with precisely those constitutional and democratic norms and principles and those human rights and fundamental freedoms that are at the heart of the European community of values.[35]

6 That said, let us turn to the *Achmea* decision of the CJEU of 6 March 2018.[36] Within the context outlined above, the general finding of the Court is relevant that an international agreement may not affect the allocation of powers fixed by the Treaties or, consequently, the autonomy of the EU legal system, observance of which is to be ensured by the CJEU in cooperation[37] with the courts of the Member States.[38] With a patent granted by the EPO, however, a public act with binding effect within the legal order of the Union is transplanted from an external legal system that operates according to its own polity and policy. The UPC will have to acquiesce, even when in the granting procedure European law is violated or applied in a manner contradicting the European value system (including, nota bene, the Charter of Fundamental Rights).[39] Thus even the standing of the CJEU as the EU's constitutional court would be undermined, and the Court indirectly bound by the decision of an institution outside the Union legal order.[40]

7 The procedure at the EPO is "tainted" for yet another reason. There is an ongoing debate about whether the Boards of Appeal and the Enlarged Board of Appeal have the independence required of a judicial body. On 27 February 2018, in a case on pay cuts of the members of Portugal's Court of Auditors, the CJEU handed down a ruling dealing in detail with the significance of the independence of the judiciary on the level of the Union and the Member States and with the personal requirements and organizational structures that must be fulfilled to ensure it.[41] According to the Court, the concept of independence presupposes, in particular, that the judicial body concerned exercises its judicial functions in complete autonomy,

[34] Recital 5 and Art. 9(1) of Reg. 1257/2012.

[35] European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR), signed in Rome on 4 November 1950.

[36] Judgment of the CJEU of 6 March 2018, *Achmea*, C-284/16, ECLI:EU:C:2018:158.

[37] Art. 19(1) and 19(3) TEU; Art. 267 TFEU.

[38] Judgment of the CJEU of 6 March 2018, *Achmea*, C-284/16, ECLI:EU:C:2018:158, para. 32 *passim*; on the implications of the ruling for the UPCA, *see* H. Ullrich, *supra* note 14, p. 47 *et seq*., 99 *passim*; M. Lamping, *supra* note 14, p. 134 *et seq*.; T. Jaeger, *supra* note 33.

[39] Charter of Fundamental Rights of the European Union, OJ C 326 (26 October 2012), p. 391.

[40] For details, *see* S. Broß, "Einheitspatent und Einheitliches Patentgericht im Europäischen Integrationsprozess – verfassungsrechtliche Perspektive", ZGE (2014), p. 1 *et seq*.

[41] Judgment of the CJEU of 27 February 2018, *Associação Sindical dos Juízes Portugueses*, C-64/16, ECLI:EU:C:2018:117, para. 30 *et seq*.

without being subject to any hierarchical constraint or subordinated to any other body and without taking orders or instructions from any source whatsoever, and that it is thus protected against external interventions or pressure liable to impair the independent judgment of its members and to influence their decisions.[42]

8 In the light of the fissures in the unified patent judiciary outlined above, the remaining 27 Member States of the EU should consider carefully whether they really want to establish the UPC without any further guidance of the CJEU on the sustainability of the system's foundation, particularly in view of the UK's imminent withdrawal from the EU. Attempting to incorporate a state that has chosen to turn its back on the Union because it no longer wishes to be a part of precisely this European community of solidarity would put further pressure on the already shaky foundation of the UPC. Putting a brave face on Brexit's implications for the UPCA's legality does not only fail to solve the problem. It actually makes it worse. Instead of insisting on the continued participation of the UK, Brexit should be used as an opportunity to call to mind the real purpose of the endeavour: the unified patent judiciary is a complement to the system of unitary patent protection – and the two together are an integration measure of the Member States that *must* "aim to further the objectives of the Union, protect its interests and reinforce its integration process".[43]

Even the "art of the possible"[44] has to abide by the rule of law. To stoically press on is not only to violate the European Treaties, but also to cast a shadow on the integrity and credibility of the EU as an autonomous entity with its own constitutional identity. The crisis that the Union is facing obviously transcends issues of patent law. But the European patent system is making a considerable negative contribution to the current fault lines forming within the Internal Market.

[42] *Ibid*., para. 44.

[43] Art. 20(1) TEU; *see also* Art. 326 *et seq*. TFEU.

[44] Otto von Bismarck (1815–1898); *see*, for example, "Stenographische Berichte über die Verhandlungen des Reichstages, V. Legislaturperiode, IV. Session 1884", Vol. 1, p. 73.