

## CASE COMMENTS

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# THE GERMAN CONSTITUTIONAL COURT SAYS 'NEIN' TO THE UPC

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### The Key Facts

The German Federal Constitutional Court ('Bundesverfassungsgericht' or 'BVerfG') in its decision dated 13 February 2020 (2 BvR 739/17) upheld a constitutional complaint filed to challenge the ratification of the 'Agreement on a Unified Patent Court' ('UPC Agreement') by the German Government, which would otherwise have conferred German sovereign powers on this newly formed supranational judicial body. According to the BVerfG judges, the proposed Unified Patent Court infringes Article 38(1) first sentence, in conjunction with Article 20(1) and (2), and Article 79(3) of the German Basic Law ('Grundgesetz'). This is because the UPC provisions were not passed by a two-thirds majority of the upper house of the German parliamentary body (Bundestag) as otherwise mandated by Article 23(1) third sentence, with Article 79(2) of the German Basic Law.

The Unified Patent Court, or 'UPC', is a planned common judicial forum that would focus on hearing patent cases, and is a forum available to all participating Member States of the European Union (27 EU Member States at present, post-Brexit). In particular, the UPC is to hear and decide matters relating to patent infringement and revocation

proceedings concerning a special type of European patent known as a 'Unitary Patent' (or 'UP'), created by EU Regulation 1257/2012, that would offer unitary patent protection valid in the territories of all ratifying EU Member States at the request of the patent proprietor upon the grant of a European patent. Unitary protection naturally requires a unitary patent right enforcement system, capable of providing a single judgment which is directly enforceable throughout all such EU Member States. The UP was to be implemented following the establishing of the UPC system, according to the UPC Agreement, which was signed as an intergovernmental treaty in February 2013 by 25 EU States, including Germany. To date, Spain, Poland and Croatia have not ratified the UPC Agreement.

Article 1(1) first sentence of the UPC Agreement states: 'A Unified Patent Court for the settlement of disputes relating to European patents and European patents with unitary effect is hereby established'. The BVerfG held that this wording constitutes a violation of the provisions of the German Basic Law noted above, at least because Article 1(1) amounts to a transfer of German sovereign rights to the UPC, namely adjudication authority, which necessarily requires strict compatibility with the German Constitution. Therefore, such a transfer of power, which inevitably invokes constitutional protections, can only be authorised by a two-thirds majority vote of approval by members of the Bundestag. But this mandatory parliamentary requirement was never met.

While 35 delegates of the entire Bundestag (presently consisting of 709 seats) did unanimously adopt the draft of the Act of Approval on 10 March 2017, as a first step towards UPC implementation, clearly this vote did not represent a qualified Bundestag majority within the meaning of Article 23. Accordingly, the improper implementation of the UPC Agreement in Germany on these facts was alleged in the constitutional complaint to amount to a material violation of Article 23(1) third sentence, in conjunction with Article 79(2) of the German Basic Law.

### The Role of the BVerfG in Germany

The BVerfG, or Federal Constitutional Court, is the supreme constitutional court of Germany, and was established by the German Basic Law at the beginning of the post-World War II

German republic. With its seat in Karlsruhe, the BVerfG jurisdiction entails the exercise of judicial review power over matters implicating German constitutional rights, including legislative acts and public international law, and other powers conferred by Article 93 of the Basic Law. The court's power also extends to matters defined according to the Federal Constitutional Court Act (BVerfGG), which authorises the BVerfG to hear, for instance, constitutional complaints (as in the present case), federal disputes, and impeachment procedures. The Federal Constitutional Court (BVerfG) consists of two senates, which are allocated to three different chambers; decisions by each respective senate require a majority, although a two-thirds vote may be required in certain matters. The BVerfG is not a court of automatic appeal; instead, cases are heard following acceptance upon application, and the BVerfG's decisions are not appealable.

## The Long and Winding Road to German Ratification of the UPC

The UP/UPC represents a lengthy and complicated undertaking which has the ambitious goal of attempting to harmonise patent protection in a single jurisdiction, in addition to providing a recognised forum applicable to all participating EU Member States and which is empowered to hear UP revocation and infringement proceedings, SPC issues, grant declarations of non-infringement, and establish legal damage remedies. The UPC system would include both legally qualified and technically qualified judges with many years of professional experience, who would sit as a bench of three (Court of First Instance) or five (centralised Court of Appeal), as well as sitting in Local Divisions that are situated internally within a single EU Member State. Sources of applicable law include EU law, the UPC Agreement, the European Patent Convention (EPC), other applicable international agreements and national law (the latter taking into account the controlling 'Rome I and Rome II' EU Regulations).

Even before the German constitutional complaint, the UPC had already given rise to several legal challenges alleging that the UPC encroaches upon European law with respect

to compatibility. For instance, the Court of Justice of the European Union (CJEU) in Opinion 1/09 dealt with the question as to whether 'the envisaged agreement creating a Unified Patent Litigation System (currently called the 'European and Community Patents Court') is compatible with the provisions of the Treaty establishing the European Community'. In C-146/13 and C-147/13 (*Kingdom of Spain v Council of the European Union*, filed in 2013), the CJEU addressed a range of questions associated with the UPC, such as whether the UPC infringes the fundamental principles of non-discrimination by introducing a patent scheme to the detriment of innovators whose mother tongue is not an official UPC language (English, French or German); whether the UPC infringes the core principle of legal certainty of the public; and whether the setting and distributing of renewal fees according to the UPC are proper without the necessary EU supervision. All of these complaints were rejected by the CJEU.

Article 89 of the UPC Agreement establishes that the UPC shall enter into force on the first day of the fourth month after all conditions have been met, but stipulates as a prerequisite that the three Member States with the highest quantity of validated European patents in the year preceding the signature, namely 2012 (before Brexit: Germany, the United Kingdom and France), must ratify the UPC Agreement before the UPC can be effectively implemented.

While we refrain from commenting on the obvious challenges associated with Brexit, we do note that Germany's UPC problem arose on 10 March 2017, following the submission of the constitutional complaint against the UPC Agreement Act alleging 'democratic deficits and deficits in the rule of law with regard to the regulatory powers of the organs of the UPC', a 'perceived lack of an independent judiciary under the UPC' and a non-conformance of the UPC with EU law, in addition to the infringed German Basic Law requiring the two-thirds Bundestag vote. This blow to the German ratification of the UPC was further exacerbated on 4 April 2017, when the German President Frank-Walter Steinmeier formally abstained from signing off on the UPC Act and suspended the German ratification process at the specific request of the BVerfG given the pending BVerfG complaint, which was viewed as not wholly lacking merit (*'nicht von vorneherein aussichtslos'*).<sup>1</sup>

1) See 2 BvR 739/17, paragraph 90.

## Basis of the Constitutional Complaint

The constitutional complaint was formally lodged on 31 March 2017. The plaintiff, a private individual and German attorney at law (Rechtsanwalt), firmly asserted and reasoned four main violations of the German Constitution: (i) a breach of the requirement for a qualified majority Bundestag vote as required by Article 23(1) third sentence in combination with Article 79(2) of the German Basic Law;<sup>2</sup> (ii) inherent democratic deficits in the regulatory structures of the UPC;<sup>3</sup> (iii) lack of democratic legitimacy and independence of the UPC judges;<sup>4</sup> and (iv) a fundamental irreconcilability of the UPC with the law of the European Union.<sup>5</sup>

A flood of *amici curiae* briefs was sent to the BVerfG by, for example, the German Federal Government and Council, the German Bar Association, the European Patent Office, the German Association for Industrial Property (GRUR), the European Patent Lawyer and Litigator Association, and the Federal Association of German Industry, who strenuously rebutted the allegations set forth in the complaint.<sup>6</sup> Despite these submissions, the BVerfG found that the first element (i) of the complaint was admissible. In the court's view, Article 23(1) third sentence in conjunction with Article 79(3) Basic Law was infringed by the failure of the Bundestag vote, thereby resulting in the violation of Article 38(1) first sentence and Article 20(1) and (2) in conjunction with Article 79(3) of German Basic Law.

## Looking Ahead: Is the UPC Done?

In a public statement made on 26 March 2020, the German Minister of Justice and Consumer Protection, Christine Lambrecht, stated the need to 'carefully evaluate the decision of the Federal Constitutional Court and examine possibilities to remedy the identified lack of form still in the current legislative period'. This pronouncement implies that the German Bundestag should vote again on the UPC matter during the current legislative period, that is, before October 2021, at which time a new Parliament will be elected. The minister's statement was 'strongly welcomed' by the EPO,

being heartily endorsed by EPO President António Campinos in a statement issued on 27 March 2020, which emphasised that both the Unified Patent and the Unified Patent Court can favourably support IP-intensive industries with 'reduced cost, simplified administration and greater legal certainty', matters that will undoubtedly take on greater importance during the aftermath of the COVID-19 pandemic.

Clearly, there still exist numerous uncertainties related to the ratification and the eventual implementation of the UP/UPC frameworks.

For example, in a first scenario, if the Bundestag properly voted to ratify the UPC Agreement in 2020, would the UPC enter into force with the United Kingdom on board, before the final Brexit date on 31 December 2020? In this case, the signatory requirements of Article 89 of the UPC Act would be complete, rendering the UPC system ready for operations. Yet, as readers may recall, despite ratifying the UPC on 26 April 2018, the UK Parliament appeared to make a surprising about-turn by seeking to rescind UPC ratification in late February 2020, on the basis that the UPC applies EU law and is bound by decisions issued by the CJEU, both of which are fundamentally incompatible with the United Kingdom's aim of becoming an independent self-governing nation.

In a second scenario, which appears more likely at the present time, in particular given the far-reaching national demands required to cope with the present COVID-2019 crisis, a newly elected German Parliament will vote on the UPC during the 2021 session, thereby paving the way to finally ratifying the UPC Agreement. By 2021, the United Kingdom will have then formally departed from the EU. However, one of the UPC's Central Divisions, entrusted with hearing UP cases directed to biotechnology and pharmaceuticals, was scheduled to be established in London. It is thus evident that in a post-Brexit EU, the location of this court must be revisited, thereby representing yet another obstacle to UPC implementation.

Finally, and perhaps boding ill for the future of the UPC, a report published by JUVE Patent on 17 April 2020,<sup>7</sup> explains

2) *Ibid.*, paragraph 42.

3) *Ibid.*, paragraph 43.

4) *Ibid.*, paragraph 44.

5) *Ibid.*, paragraph 45.

6) *Ibid.*, paragraphs 51 to 89.

7) See: <https://www.juve-patent.com/market-analysis-and-rankings/courts-and-patent-offices/patent-community-losing-appetite-for-unified-patent-court/> (last visited 17 April 2020).

how the 'IP community' is becoming less enamoured of the UPC, according to a recently conducted survey. More than half of the respondents – private practice patent attorneys (56.5 per cent), litigation lawyers (59.4 per cent), and judges (71.4 per cent) – indicated that they are no longer in favour of the UPC, while a near majority of in-house lawyers and patent attorneys still appeared to favour the UPC system in its current form (49.3 per cent), although a large number of

these in-house experts would support a new UPC initiative (40.6 per cent).

In summary, the lingering possibility of UPC Agreement implementation marches forward, despite the significant appearance of roadblocks and an increasing sentiment of 'UPC fatigue'<sup>8</sup> that seems to be descending upon the European patent community.

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8) Ibid.