CJEU decision on Spain's challenge to the UPC
C-146/13 and C-147/13

The CJEU has today rejected Spain's latest challenges to the proposed new EU Unitary Patent and Unified Patent Court (UPC). The decision, which largely follows the AG's opinion, was widely expected, and clears a major hurdle for the introduction of the UPC.

1. BACKGROUND

The new Unified Patent Court system is created by an international agreement (the "UPC Agreement") entered into by participating EU Member States (currently all EU states except for Spain, Poland, and newest EU member, Croatia). To enter into force the UPC Agreement must be ratified by 13 participating states, including France, Germany, and the UK (as the three Member States with the highest number of European patents in effect in the year before the UPC Agreement was signed).

In contrast, the new Unitary Patent system stems from new EU legislation which has been developed by participating Member States. This was done using the enhanced cooperation procedure due to the fact that Italy and Spain did not agree with the proposals, and refused to participate. There are two EU regulations, Regulation 1257/2012 establishing the unitary patent (the "UP Regulation"), and Regulation 1260/2012 dealing with translation requirements (the "Translation Regulation"). Entry into force of the legislation is dependent upon entry into force of the UPC Agreement. Unitary patents will be administered by the European Patent Office (EPO).

2. THE SPANISH CHALLENGE

Spain has consistently opposed the proposed introduction of the UPC. In Spain and Italy v Council Cases C-274/11 and C-295/11, Spain lost its original challenge to the use of enhanced cooperation, which was used to push the UP Regulation and Translation Regulation forward without the agreement of all EU Member States. In its more recent challenge, Spain raised numerous objections to the legality of both regulations, and their interaction with the UPC Agreement.

3. THE CJEU'S DECISION IN C-146/13

The CJEU has today rejected Spain's challenge in its entirety. In doing so the CJEU has largely followed the reasoning of the Advocate General's opinion of 18 November 2014 (see here).

In summary, the objections to the UP Regulation raised by Spain and rejected by the CJEU were:

a) First objection: infringement of the values of the rule of law

Spain noted that the UP Regulation introduces unitary patents,
which are to be administered by the EPO. In doing so, Spain claimed that the UP Regulation incorporates into EU law measures emanating from the EPO, whose appeal boards are not independent of the EPO, and whose decisions are not subject to judicial review. Accordingly, Spain said, the UP Regulation fails to ensure correct and uniform application of EU law and protection of fundamental rights, as required by Article 2 of the Treaty of the Functioning of the EU (TFEU).

The CJEU rejected this challenge on the basis that grant of European patents is exclusively governed by the European Patent Convention (EPC) and not by EU law. This position is not affected by the UP Regulation. The UP Regulation merely establishes conditions under which a European patent previously granted by the EPO pursuant to the EPC, may benefit from unitary effect in participating Member States (including defining that unitary effect).

b) Second objection: lack of legal basis for the UP Regulation

Spain alleged that Article 118 TFEU, which provides for uniform protection of IPR in the EU, was not the appropriate basis for adopting the UP Regulation. In particular, Spain argued that the UP Regulation is devoid of substantial content, and does not state the acts a unitary patent protects against. Further, reference in the UP Regulation to national law does not guarantee uniform application.

The CJEU found that Article 118 was an appropriate basis. In particular, the aim of the UP Regulation is the ‘creation of unitary patent protection’ to improve the level of patent protection by providing uniform protection in participating Member States, and to eliminate costs and complexity for businesses throughout the EU. The UP Regulation has substantial content: Article 3 provides that unitary patents have the same set of patent claims, and may only be limited, transferred, revoked, or lapse, in respect of all Member States. Further, to the extent that the designated national law is applied to a unitary patent, the same national law will be applied in the territory of all Member States in which the unitary patent has effect. Accordingly, the UP Regulation does provide uniform protection within the meaning of Article 118.

c) Third objection: Misuse of powers

Spain alleged misuse of power by the EU Parliament and Council, claiming that the UP Regulation is an ‘empty shell’ and does not establish a judicial system capable of ensuring uniform protection of IP rights throughout the EU. The sole purpose of the UP Regulation was to create the appearance of an EU specific concept and rules; but in reality it was departing from EU law and controls.

Again, the CJEU rejected the challenge. There is only a misuse of powers if objective, relevant, and consistent evidence shows that the measure was taken solely or chiefly for ends other than those for which the power was conferred. Spain had not shown that. In effect, Spain was merely repeating its second objection which was rejected.
d) Fourth and Fifth objections: infringement of Article 291(2) TFEU and the Meroni¹ principles

Spain alleged that the assignment to participating Member States (acting in a select committee of the Administrative Council of the EPO) of the power to set unitary patent renewal fees and determine distribution of those fees was (i) in breach of Article 291(2) TFEU (which provides that where uniform conditions for implementing legally binding Union acts are needed, those acts shall confer implementing powers on the Commission) and (ii) the Meroni principles.

The CJEU found that Spain had failed to show that this was a situation where uniform conditions were needed to implement the relevant provision of the UP Regulation. Accordingly Article 291(2) TFEU was not applicable. Further, the Meroni principles apply to delegation of discretionary powers by an EU institution to a private entity. However, the power to set and distribute renewal fees is delegated to the EPO by Member States, and so Meroni is not applicable.

¹ Meroni v High Authority (9/56, EU:C:1958:7)

e) Sixth and Seventh objections: infringement of the principles of autonomy and uniformity of EU law

Perhaps most fundamentally, Spain claimed that the UPC Agreement was in substance no different to a previous draft agreement (including the EU as a signatory) which proposed a European and EU Patents Court (EEUPC) to hear patent actions, and which was held to be incompatible with the EU and FEU Treaties (Opinion 1/09). In particular, the UPC does not form part of the EU institutional and judicial system, and does not lay down guarantees for the preservation of EU law. Further, Spain alleged that the EU has the exclusive competence to conclude international agreements in so far as they may affect common rules or alter their scope – therefore participating Member States did not have the competence to accede to the UPC Agreement.

The CJEU neatly sidestepped these issues by pointing out that it has no jurisdiction to rule on the lawfulness of an international agreement concluded by Member States. Note, however, that these issues did not prevent the CJEU from opining on the EEUPC, seemingly on the basis that, although an international agreement, in that case the EU was itself a party, and the CJEU was merely offering an opinion.

Spain further alleged that entry into force of the UP Regulation is dependent upon entry into force of the UPC Agreement, which is itself dependent upon the will of the Member States to ratify the UPC Agreement. Further, this gave Member States the power to decide unilaterally whether the UP Regulation would apply, because failure to ratify the UPC Agreement would result in the UP Regulation not being applicable in that Member State. This, Spain claimed, infringed the principles of autonomy and the uniform application of EU law.

The CJEU notes that EU regulations are directly effective unless (as here) they leave it to a Member State to adopt measures to ensure the application of the regulation. In this
case the UP Regulation has left it to Member States to adopt measures, including to establish the Unified Patent Court – this is essential to ensure the proper functioning of the unitary patent, consistency of case law, legal certainty, and cost effectiveness for patent proprietors. Further, the CJEU notes that the UP Regulation only expressly limits the application of three sub-articles of the UP Regulation to Member States that have not ratified the UPC Agreement when it enters into force; and that this partial and temporary derogation is justified.

4. THE CJEU'S DECISION IN C-147/13

The CJEU also rejected all five of Spain's objections to the Translation Regulation, in some cases on the same grounds.

5. COMMENT

Today's decision, while expected, will no doubt be welcomed by all those who are working towards the establishment of the UPC system. While there is significant work to be done, and uncertainty to overcome, the CJEU's decision addresses the last major legal hurdle to the introduction of the UPC. That said, the CJEU's judgment reads as that of a Court keen to achieve a specific outcome, and leaves a number of questions unanswered.

It will be interesting to see what position the Spanish Government will now take. After three failed challenges, it seems doubtful that Spain will have the appetite for further opposition of the UPC system. Many businesses may now urge the Spanish Government to consider joining the system, to avoid being left out altogether.

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