

EXPLANATORY MEMORANDUM TO
THE PATENTS (EUROPEAN PATENTS WITH UNITARY EFFECT AND UNIFIED
PATENT COURT) ORDER 2016

2016 No. XXXX

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Intellectual Property Office, an Executive Agency of the Department for Business, Innovation and Skills, and is laid before Parliament by Command of Her Majesty.
- 1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

- 2.1 The Patents (European Patents with Unitary Effect and Unified Patent Court) Order (“the Order”) amends the Patents Act 1977 (c.37, “the Patents Act”).
- 2.2 This instrument gives effect to the Agreement on a Unified Patent Court (“the UPC Agreement”) and a related EU Regulation (Regulation (EU) No 1257/2012 for the creation of unitary patent protection, “the Unitary Patent Regulation”; Regulation (EU) No 1260/2012 relating to translation arrangements (“the Translation Regulation”) does not require any changes to UK law). The instrument implements provisions of the UPC Agreement that give the Unified Patent Court jurisdiction to decide some issues in relation to certain patents valid in the UK, and ensures the new European patent with unitary effect (“Unitary Patent”) is reflected in the Patents Act.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 The Order uses two different powers to make changes to the Patents Act – the power provided to the Secretary of State under section 88A of the Patents Act for changes relating to the UPC Agreement, and the power provided under section 2(2) of the European Communities Act 1972 to implement the obligations under the Unitary Patent Regulation.
- 3.2 The Unitary Patent cannot exist without the Unified Patent Court. The Unitary Patent Regulation and Translation Regulations are dependent on the entry into force of the UPC Agreement, and cannot apply without that.
- 3.3 Therefore, it is not considered appropriate to divide changes relating to the Unitary Patent and changes relating to the Unified Patent Court into separate instruments. Aside from the fact that these changes will all come into force at the same time, many of the provisions relating to the Unified Patent Court will need to be applied to Unitary Patents – using separate instruments could make it more complicated to follow the changes being made. Providing the changes in a single instrument will therefore help users follow the implementation process, by giving them a single place to refer to.

Other matters of interest to the House of Commons

- 3.4 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland and Northern Ireland.

4. Legislative Context

- 4.1 The Patents Act is the principal statute governing the patents system in the UK and it gives the Comptroller-General of Patents Designs and Trade Marks, and the Patent Office (operating as the Intellectual Property Office, “the IPO”), certain powers and duties in relation to the running of the patents system. This includes the examination of patent applications, the granting of patents and acting as a quasi-judicial body with jurisdiction over certain legal proceedings concerning patents.
- 4.2 On 19 February 2013, the UK Government signed an intergovernmental Agreement to provide for a Unified Patent Court within participating European countries – the UPC Agreement. The Unitary Patent and Translation Regulations were published in the Official Journal of the European Union on 17 December 2012.
- 4.3 The Intellectual Property Act 2014 (c.18, “the IP Act”) received Royal Assent on 14 May 2014, and many of its provisions were commenced on 1 October 2014. It provided for a number of changes to the law relating to designs and patents. In particular, section 17 of the IP Act inserted a new section 88A into the Patents Act which enables the UPC Agreement to be brought into effect in the UK by order of the Secretary of State subject to the approval of each House of Parliament. The Order uses that power for the first time to make changes to the Patents Act.

Scrutiny history

- 4.4 The Department submitted an explanatory memorandum on the UPC Agreement (Council Document 11533/11) on 21 September 2011. The draft UPC Agreement was cleared by the House of Lords EU Select Committee on 19 December 2012 (see Progress of Scrutiny, 9th edition, 2012-13 session) and the House of Commons European Scrutiny Committee on 30 January 2013 (see 30th Report, 2012-13 session).
- 4.5 The Department submitted an explanatory memorandum on the Unitary Patent and Translation Regulations (Council Documents 9224/11 + ADDS 1-2 and 9226/11 + ADDS 1-2) on 5 May 2011. These were cleared by the House of Lords EU Select Committee on 15 June 2011 (see Progress of Scrutiny, 17th edition, 2010-12 session) and the House of Commons European Scrutiny Committee on 5 December 2012 (see 22nd Report, 2012-13 session).

5. Extent and Territorial Application

- 5.1 The extent of this instrument is to all of the United Kingdom.
- 5.2 The territorial application of this instrument is to all of the United Kingdom.
- 5.3 The provisions of the Patents Act extend to the Isle of Man. However, the amendments to the Patents Act made by the Order do not extend to the Isle of Man. Separate provision will need to be made to give effect to the provisions of the Order in respect of the Isle of Man. This will be done before ratification of the UPC Agreement, by means of an Order in Council under section 132(2) of the Patents Act, so that the territorial scope of the UK’s ratification can include the Isle of Man in line

with the request by the Council of Ministers of the Isle of Man in mid-2013¹. In addition, being included in the UK's ratification of the UPC Agreement will mean that the Isle of Man will be within the territory of the contracting Member States of the UPC Agreement and the participating Member States for the Unitary Patent Regulation.

6. European Convention on Human Rights

6.1 Baroness Neville-Rolfe, Parliamentary Under-Secretary of State and Minister for Intellectual Property, has made the following statement regarding Human Rights:

In my view the provisions of the Patents (European Patents with Unitary Effect and Unified Patent Court) Order 2015 are compatible with the Convention rights.

7. Policy background

What is being done and why

- 7.1 A patent protects an invention and lets the owner of that patent take legal action against anyone who makes, uses, sells or imports that invention without the owner's permission – this is known as infringement of the patent. There are currently two types of patent that are valid in the UK – GB national patents granted by the Intellectual Property Office, and European patents designating the UK (“European patent (UK)”) granted by the European Patent Office.
- 7.2 Whilst the current system allows for patents to be granted covering multiple European countries, these patents (often referred to as “European bundle patents”) are administered and enforced individually in each country they cover. As a result, the system is heavily fragmented, legally uncertain, and costly. Fees are often required for validation of the patent in each country being covered, and translations into official national languages are also needed in many cases. Actions for infringement are commonly brought in multiple jurisdictions. This can sometimes result in different conclusions being reached by courts in different countries, even though the facts of the case may be the same. Furthermore, businesses need to file documents in all these jurisdictions (often requiring translation into the language of the court), pay court fees, hire local counsel, etc., all of which increase the cost burden of enforcing patents.
- 7.3 The Unitary Patent will be a single patent which will have uniform effect in up to 26 EU Member States. The patent will be applied for and administered through the European Patent Office, to whom the request for unitary effect must be made after the patent has been granted. The Unified Patent Court will be a specialised court with jurisdiction to hear disputes on European bundle patents and the new Unitary Patent, as well as supplementary protection certificates² (“SPCs”) based on those patents.
- 7.4 The UPC Agreement and the Unitary Patent and Translation Regulations therefore mean that it will be possible to apply to the European Patent Office (using the same application process as at present) for a single patent covering all participating countries, and to have that patent litigated in a single court (the Unified Patent Court), providing a single judgment valid in all the participating countries. This will be an

¹ http://www.gov.im/media/629447/comin_aprilmayjune2013.pdf

² These provide holders of patents relating to certain medicinal and plant protection products an additional period of protection, to reflect regulatory delays.

optional route for business to protect their inventions but could save money by reducing the need to litigate in multiple jurisdictions, along with reducing the associated administrative and cost burden. It is intended to make access to the patent system easier, less costly, and more legally secure.

- 7.5 In order for the Unitary Patent and the Unified Patent Court to come into existence, thirteen of the signatory states must ratify the UPC Agreement – including France, Germany and the United Kingdom. The Unitary Patent and Translation Regulations will then come into effect at the same time. The Government will ensure that interested parties are kept informed of the date from which the system will have effect through the IPO's guidance for business.
- 7.6 Before the UK can ratify, the Government needs to ensure that its obligations under the UPC Agreement are met in national law. It is also necessary to ensure national law is in compliance with the provisions of the Unitary Patent and Translation Regulations. In particular, this means that the new Unitary Patent should be reflected in the Patents Act as a patent valid in the UK, and that the Unified Patent Court must be given the proper degree of jurisdiction over the appropriate patents. These goals can only be achieved through legislation.

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- 7.7 The Order makes changes to the Patents Act to reflect three general themes, as set out below.
- 7.8 ***Jurisdiction***
- 7.8.1 The UPC Agreement requires that the Unified Patent Court has exclusive competence over actions relating to validity or infringement of European patents (whether with unitary effect or bundle patents) and SPCs based upon them. UK courts and authorities (such as the IPO) will remain able to decide other matters, such as who owns a patent, but will be required to have some powers transferred from them to the Unified Patent Court.
- 7.8.2 The Order achieves this by adding new section 83A(2) and Schedule A4 to the Patents Act. Schedule A4 sets out the transfer of jurisdiction to the Unified Patent Court in paragraph 1, and which sections of the Patents Act will no longer apply to patents and SPCs which are litigated at the Unified Patent Court in paragraphs 3(2) and 3(4).
- 7.8.3 There are transitional provisions provided in the UPC Agreement which affect this transfer of jurisdiction. During the transitional period (which lasts for a minimum of 7 years after entry into force), patent holders will be able to choose to bring cases relating to European bundle patents and related SPCs before either the Unified Patent Court or national courts. They will also have the ability to opt their European bundle patent out of the provisions of the UPC Agreement for the life of that patent (an opt-out which can be withdrawn at any time). The jurisdiction for SPCs will follow that of the underlying European bundle patent. The Order accounts for these options by making the application of the Schedule to these patents conditional on the transitional provisions of the UPC Agreement. Paragraph 2 of Schedule A4 provides a cross-reference to the transitional provisions in the UPC Agreement, and to the ability to opt out.
- 7.8.4 The UPC Agreement states that the decisions and orders of the Unified Patent Court are enforceable in national courts, and must be recognised in the same way as if the

order came from a national court. Paragraph 4 of Schedule A4 puts that recognition into the Patents Act for UK courts, including for the Enforcement of Judgments Office in Northern Ireland. It also allows for mediation settlements reached through the UPC's mediation and arbitration centre to be enforced in national courts, as required in the UPC Agreement (arbitration awards will be enforced as New York Convention awards through the Arbitration Act 1996).

- 7.8.5 Several other sections of the Patents Act will need to include specific references to the Unified Patent Court, particularly where the relevant section relates to a power that the Unified Patent Court will hold in relation to European patents (UK). Article 2(2), 2(5)(a), 2(5)(b), 2(7) and 2(8) of the Order inserts these references.

7.9 *Effect of the Unitary Patent*

- 7.9.1 The Unitary Patent Regulation requires that the Unitary Patent is given the same effect in all participating Member States; those Member States must therefore ensure their law is compatible with the provisions of the Unitary Patent Regulation and does not contradict the requirement of unitary effect. Because the Unitary Patent is a new type of patent, the Patents Act does not currently mention it, and so it is not clear how Unitary Patents fit within the provisions of the Patents Act.

- 7.9.2 The Order provides this primarily by adding new subsection 83A(1) and Schedule A3 to the Patents Act. Schedule A3 sets out that only certain sections of the Patents Act will apply to a Unitary Patent. Paragraph 1 sets out that there are two ways these sections can apply – either by being specified in the Schedule (paragraph 1(a)), or by direct applicability of the associated Regulations (paragraph 1(b)).

- 7.9.3 The applicable sections are designed to apply in the same way they currently do for European patents (UK) – this is stated in paragraph 3 of Schedule A3. However, certain terms in those sections need to be read differently to take into account the differences between a Unitary Patent and a European patent (UK); for example, the territory the Unitary Patent is valid in is broader than the other patents valid in the UK, which affects whether an act is considered to be infringing or not. Paragraph 4 of Schedule A3 sets out how these references are to be read when they are applied to Unitary Patents – such as in paragraph 4(10), which ensures the territory of the Unitary Patent is correctly recognised.

- 7.9.4 The Unitary Patent Regulation also states that participating Member States have to ensure that European bundle patents designating their country are considered not to have taken effect when the corresponding Unitary Patent is created. In the UK, because a European patent (UK) takes effect automatically when the European patent application is granted by the European Patent Office, this will mean ensuring that, legally, the European patent (UK) had never existed. The Order does this in article 2(5)(c) by adding Section 77(10) to the Patents Act.

7.10 *Infringement*

- 7.10.1 The UPC Agreement includes provisions on what rights are given to owners of unitary patents and European bundle patents within its jurisdiction to prevent the use of their invention, and what exceptions to those rights are available. Apart from the introduction of two new exceptions discussed below, these rights and exceptions are the same as are currently provided in UK law, so require only minimal changes to be made.

- 7.10.2 The first new exception relates to the ability of plant breeders to use patented biological material to create a new plant variety without infringing a patent for that material – for example, by using a plant which has patent protected characteristics in a cross-breeding programme to develop a new plant variety. The exception does not permit plant breeders to commercialise the new variety if the patented characteristics are retained – to do so they will need the agreement of the patent holder.
- 7.10.3 The second new exception allows someone to use a lawfully-acquired computer program for certain purposes without the permission of the patent owner, and without that use being an infringement of any patent covering that program. These purposes include: making a back-up copy of the program, working out the ideas and principles on which the program is based, or gathering specific information on how that program interacts with other programs. The uses allowed include the ability to convert the program from one format to another (“decompilation”). Computer programs are protected under copyright law, which contains exceptions to copyright infringement for these purposes. The new exception is intended to ensure that the existence of a patent does not prevent the lawful use of the program under these existing copyright exceptions.
- 7.10.4 This is a narrow exception, intended to assist in the development of independently created programs so they can work correctly with other programs. The information gathered can only be used for that purpose, and the exception does not apply where the interoperability information is already available, such as in formal technical standards and specifications. Although it allows certain things to be done during the course of the development process, the exception will not permit the creation and marketing of a commercial product that would infringe the patent – if the finished product were to use any patented processes, including those relating to the decompiled program, a license would still be needed. Otherwise, this would unfairly restrict the ability of the patent owner to exploit their invention, and allow a third party to co-opt the patented technology without consideration to its owner.
- 7.10.5 The plant breeders’ exception will be applied to all patents valid in the UK. The software exception will not be applied to GB national patents, and will only cover European patents (UK) and Unitary Patents at this time. This distinction in approach reflects the fact that the two industries operate differently, and have separate priorities; in particular, it addresses the concerns of the software industry.
- 7.10.6 The plant breeders’ exception already exists in the patent law of several European countries, namely Germany, France and the Netherlands, which are the major countries for plant breeding in Europe, followed by the UK. The industry in which this exception will operate is therefore familiar with how it works, and the effect it will have on their research and development. Indeed, the industry has urged its introduction and emphasised its importance in allowing UK companies to remain competitive in the field. The exception will affect only a small number of commercially significant patents, so its impact can be estimated.
- 7.10.7 On the other hand, the software exception does not currently exist in the patent law of any of the participating Member States. As such, its scope and effect have not been tested in litigation, so the extent of use it may permit is not known. In addition, the exception is unusual because it uses an EU Directive on copyright to define its effect, and it is not clear how that will interact with patent law. The IT and telecoms sectors have expressed strong concern at the uncertainty present in this new exception, and it

is not known how many patents could be affected. Overall, the effect of this new exception on the industry is not clear, and so a more cautious approach is appropriate.

- 7.10.8 The Order incorporates the two new exceptions by amending section 60 of the Patents Act in Article 2(3), inserting them as cross-references to the UPC Agreement. This is considered to be the most appropriate way to ensure that the exceptions are interpreted in the same way by UK courts and the Unified Patent Court, as it would reduce the risk of any deviations in the wording used leading to different interpretations across Europe and potentially affecting the requirement for unitary effect. Article 2(4) applies the desired limitation to the software exception.

Consolidation

- 7.11 No consolidation of the Patents Act is planned at present. An informal consolidated text is publically available for free on the gov.uk website³.

8. Consultation outcome

- 8.1 An early draft of the Order for technical review, combined with a call for evidence as to the impact of the proposed changes, was published in June 2014⁴. The purpose of the technical review was to allow interested parties to review the draft legislation and to provide comments as to whether the text achieved the policy objectives set out in the review document. The technical review enabled people to make representations through written submissions over a 12-week period from 10 June to 2 September 2014. Public workshops and a webinar were used to raise interest in the review document, and to gain further insight into stakeholder views. Further meetings were held with stakeholders following the consultation to discuss specific issues raised in their responses, in order to better understand them.
- 8.2 Twenty responses were received during the period, from professional representative bodies, patent holders, attorney firms and individuals. All of the respondents were generally in favour of the goal and purpose of the proposed Order, although there were concerns raised about aspects of the approach taken. Issues raised during the technical review included:
- The degree of cross-referencing versus copy-out of the text of the UPC Agreement, and whether a textual copy-out approach carried greater risk of different interpretations by the Unified Patent Court and UK courts, which could mean UK businesses were put at a disadvantage;
 - How the order should reflect the transitional provisions provided by the UPC Agreement;
 - The extent to which the two new exceptions to infringement contained in the UPC Agreement should apply;
 - Ensuring that supplementary protection certificates are properly accounted for in the transfer of jurisdiction.
- 8.3 These and other issues were considered when preparing the final draft regulations and, in response to evidence from stakeholders, the Government has made a number of changes to the Order. Examples include:

³ <https://www.gov.uk/government/publications/the-patents-act-1977>

⁴ <https://www.gov.uk/government/consultations/secondary-legislation-implementing-the-unified-patent-court>

- Using cross-referencing wherever possible, so that the risk of divergent interpretations is reduced and UK businesses are not put at a disadvantage; in particular, for the transitional provisions referred to in paragraph 7.8.3 above;
- Clearly separating the transfer of jurisdiction to the UPC from the effect of that transfer on certain sections of the Patents Act relating to European patents (UK), and clarifying how those sections interact with the transitional provisions;
- Extending the changes on territorial extent to additional sections of the Patents Act, to ensure that the law applicable to Unitary Patents is correctly applied;
- Adjusting how the two new exceptions to infringement will apply to patents valid in the UK;
- Adding provisions setting out how enforcement of decisions or orders from the Unified Patent Court will take place in the UK;
- Adding domestic transitional provisions to ensure that the new exceptions to infringement will have no retroactive effect on acts carried out before the Order enters into force;
- Addressing some technical points of drafting highlighted by respondents.

8.4 A summary of responses to the technical review and call for evidence was published on 12 March 2015, and the Government Response was published on 15 January 2016; both are available on the gov.uk website⁵.

9. Guidance

9.1 The IPO intends to provide formal guidance for users of the patent system on the availability of the Unitary Patent and the new court, closer to its expected start date in 2017. To raise and maintain awareness, the IPO participates in a range of conferences and seminars to keep stakeholders informed of what the new system will mean for them. It also provides a fortnightly update to interested parties on the progress of the Unified Patent Court.

10. Impact

10.1 The impact on business, charities or voluntary bodies is dependent on the choices they make with regard to the various methods of protection available to them in the patent system. Bodies that choose to protect their inventions via Unitary Patents will benefit from reduced translation costs and validation fees, as well as the single jurisdiction of the Unified Patent Court with its reduced litigation costs. Holders of existing European patents (UK), and those who continue to use that route, may also benefit from the single jurisdiction of the Unified Patent Court; however, they will lose the benefit of some of the low-cost forums available in the UK, such as the Intellectual Property Enterprise Court, unless they choose to opt out of the Unified Patent Court's jurisdiction.

10.2 The impact on the public sector is that the Government will be required to provide the Unified Patent Court with a contribution towards its running costs for at least the first seven years of its operation (at which point, the court is expected to have become self-financing), as well as being responsible for the costs of setting up and running the central and local divisions of the Unified Patent Court that will be located in the UK.

⁵ <https://www.gov.uk/government/consultations/secondary-legislation-implementing-the-unified-patent-court>

The Government will also be liable for any damages resulting from a breach of Union law caused by the Unified Patent Court. The IPO, and potentially HM Courts & Tribunals Service, the Scottish Courts and Tribunals Service, and the Northern Ireland Courts and Tribunals Service will be required to make changes to its processes and services to account for the changes set out in the Order, such as the transfer of jurisdiction and the existence of the Unitary Patent. In addition, because annual renewal fees for Unitary Patents are collected and distributed in a different way to European patents (UK), this may have an effect on the income the IPO receives from the European Patent Office.

- 10.3 Further details on the benefits and costs are provided in three Impact Assessments relating to the three elements of the changes being made – jurisdiction, effect of the Unitary Patent, and infringement – which are submitted with this memorandum and will be published alongside it on the legislation.gov.uk website.

11. Regulating small business

- 11.1 The legislation applies to activities that are undertaken by small businesses.
- 11.2 No specific action is proposed to minimise regulatory burdens on small businesses.
- 11.3 The basis for the final decision on what action to take to assist small businesses is that the Unitary Patent and the Unified Patent Court are optional services which small businesses are not required to use. Where they choose to use these services there may be a benefit to them, which will be the same as for large businesses. Similarly, clarification of the legal position regarding the infringement provisions applicable to patents valid in the UK will provide legal certainty and therefore be beneficial to all businesses, including small businesses. For these reasons small businesses are not exempted from the changes. During the consultation process, the technical review was provided to a number of organisations that represent or support small business users of the patents system. Each of the three Impact Assessments also considered specific implications for small and micro-sized businesses.

12. Monitoring & review

- 12.1 The IPO will be reviewing its implementation of the UPC Agreement and the Regulations within five years of entry into force of the Order; in particular, whether the software exception should be extended to GB national patents. This will include assessing patenting behaviour, investigating how the exception is treated by the courts, and consulting businesses on any costs or benefits that have arisen. The IPO will also be monitoring the effects of the Unitary Patent and Unified Patent Court on customer behaviour as part of its ongoing customer engagement processes.
- 12.2 In addition, and distinct from assessing UK implementation, the UPC Agreement contains a review clause, which commits the Administrative Committee of the Unified Patent Court (the Court's governing body) to consult with users on the effectiveness of the court after seven years, or 2000 cases, whichever is later. The European Commission is required to review the functioning of the Regulations within three years of the first Unitary Patent taking effect.
- 12.3 The Order does not contain a review clause as it does not, in itself, make regulatory provision in the sense of imposing requirements, restrictions, conditions or setting standards within the meaning of section 32(4) of the Small Business, Enterprise and Employment Act 2015. The order makes provision to give effect to the Unitary

Patent created by the Unitary Patent Regulation and to recognise the jurisdiction of the Unified Patent Court.

- 12.4 Furthermore, even if the Order were considered to make “regulatory provision” within the meaning of section 32(4) of the Small Business, Enterprise and Employment Act 2015, the regulatory provision is contained in primary legislation (the Patents Act) and as such is outside the scope of the policy objectives as set out in the statutory guidance which relates to the inclusion of review provisions in the secondary legislation. Therefore, the provision of a review clause is not considered appropriate for the present Order.

13. Contact

- 13.1 Laura Starrs at the Intellectual Property Office, Telephone: 01633 814806 or email: laura.starrs@ipo.gov.uk can answer any queries regarding the instrument.