

# The European Patent Reform – Urgently needed: A legal basis for the opt-out fee

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**A popular topic of discussion are currently the fees to be charged for the “unitary patent” and for the proceedings at the Unified Patent Court. As is known, as part of the latter it is planned to raise a fee for the opt-out from the competence of the court and for the withdrawal of such application. However, the question is where the legal basis for such opt-out fee can be found. From the German perspective, the existence of such legal basis is a basic requirement under constitutional law for the admissibility of charging a fee, as it encroaches upon a property position being protected by a fundamental right. This protection can also apply to European patents and patent applications which can be made subject of an opt-out, so that the planned opt-out fee needs to satisfy the requirements of German constitutional law insofar. The following article assesses whether this is the case.**

## **I. The opt-out pursuant to Art. 83 UPCA**

As is well known, apart from the “unitary patents” the competence of the Unified Patent Court, would also cover the “classical” European patents, i. e. those without “unitary effect”, as well as respective applications, including those which were granted or applied for prior to the entry into force of the Agreement on a Unified Patent Court (“UPCA”) (Art. 3 lit. c) and d) UPCA). However, Art. 83 UPCA allows excluding them from the competence of the Court (so-called “opt-out”), after which the national institutions remain competent insofar.

The proprietor or the applicant of such European patent (or a respective supplementary protection certificate) which has been granted or applied for prior to the lapse of the transitional period of seven years (Art. 83(1) UPCA) can exclude the exclusive competence of the Unified Patent Court under Art. 83(3) UPCA. This applies to European patents granted or applied for prior to the entry into force of the UPCA as well as to those granted or applied for afterwards (and until the end of the transitional period in Art. 83(1) UPCA). An executed opt-out can be withdrawn under (Art. 83(4) UPCA).

As is known, it is planned to charge a fee for the opt-out as well as for its withdrawal (afterwards uniformly referred to as “opt-out fee”).<sup>1</sup> In the most recent “consultation document” of the Preparatory Committee a fee of EUR 80.00 is suggested for each.<sup>2</sup>

Already for reasons of constitutional law, however, more important than this amount is the question whether a fee can be charged *at all*, namely whether a legal basis exists for this.

## **II. Opt-out and fundamental rights**

As it has been explained elsewhere<sup>3</sup>, patents and patent applications with effect for Germany – in case of a European patent a potential German designation – are protected by German fundamental rights, especially by the protection of property under Art. 14 of the German constitution (“Grundgesetz”, GG).<sup>4</sup>

From the situation at the European Patent Office<sup>5</sup>, it is well-known that the protection from German fundamental rights also has to be maintained by international organisations, because, according to the frequent case law of the German Constitutional Court (“BVerfG”), the transfer of German sovereign rights to such an organisation by an international agreement pursuant to Art. 24 GG is only admissible insofar as it affords a level of protection of fundamental rights that is equivalent to the one guaranteed by the Grundgesetz.<sup>6</sup> With the entry into force of the UPCA, the Unified Patent Court would become such organisation, so that insofar as it affects legal positions protected by German fundamental rights, also the UPCA needs to satisfy the standards of the Grundgesetz.

Each fee charged for the use of protected property is an encroachment upon the protective scope of Art. 14(1) GG, as it curtails the freedom of the proprietor to dispose of his property position. In case of European patents and patent applications for which an opt-out is possible, this curtailment is embodied in the fact that, with the UPCA’s entry into force, making use of the legal protection for the protected invention in the national civil courts is planned to be made dependent on the payment of the opt-out fee.

This is problematic especially for the European patents which were granted or applied for prior to the UPCA’s entry into force. Because for these, it is envisaged to retro-

<sup>1</sup> Cf. the 17<sup>th</sup> draft of the Rules of Procedure, Rules 370(2)(a), 5(5) and 5(8), accessible at [bit.ly/3h4DHIL](http://bit.ly/3h4DHIL).

<sup>2</sup> P. 11, cipher III., accessible at [bit.ly/3b6WjE0](http://bit.ly/3b6WjE0).

<sup>3</sup> *Stjerna*, The European Patent Reform – Compatible with the German Constitution?, accessible at [www.stjerna.de/compatibility-german-constitution/?lang=en](http://www.stjerna.de/compatibility-german-constitution/?lang=en).

<sup>4</sup> Cf. BVerfGE 36, 281 (290 f.) = GRUR 1974, 142 (144).

<sup>5</sup> Cf. *Stjerna*, The European Patent Reform – Advocate General’s Statements of Position: Superseded by reality, p. 5 f., accessible at [www.stjerna.de/ag-statements-of-position/?lang=en](http://www.stjerna.de/ag-statements-of-position/?lang=en).

<sup>6</sup> Cf. BVerfG, decision of 22/10/1986, 2 BvR 197/83 – Solange II, cipher B.II.1.b); for the ECHR cf. European Commission of Human Rights, *Lenzing AG vs Germany*, case no. 39025/97, decision of 09/09/1998.

actively transfer the legal protection – the so-called procedural guarantee which forms an essential part of the protective scope of Art. 14 GG<sup>7</sup> – from the originally competent national courts (Art. 64(3) EPC) to the Unified Patent Court according to Art. 3 and 32 UPCA. If the entitled person wishes to stick with the type of legal protection originally in place at the time when the protective right was granted or applied for – namely the competence of the national courts – it is necessary for him to opt-out and pay the fee requested for this. He is meant to be charged for merely wanting to use the regulation applicable at the time when his protective right was granted or applied for for.

### III. The “proviso of the law” principle

For those patents and patent applications to which Art. 83 UPCA applies and which are subject to the protection afforded by the fundamental rights of the German Grundgesetz, such an encroachment is admissible only under certain conditions. According to the principle of the “proviso of the law” (“Vorbehalt des Gesetzes”), it is an elementary prerequisite of constitutional law that each exercise of public power in a field protected by fundamental rights requires a legal basis which must itself fulfil certain conditions. In case of its absence, any encroachment is unlawful and unconstitutional for this reason alone.

#### 1. Legal basis

According to the essentiality doctrine (“Wesentlichkeitstheorie”)<sup>8</sup> of the BVerfG it is, first of all, necessary that any circumstances which are necessary for the realization of fundamental rights must be regulated by Parliament itself by way of a formal Act of Parliament and must not be delegated to other regulators.<sup>9</sup> Thus, third parties can be authorized to make only such decisions which do not have any relevance with regard to fundamental rights. The BVerfG has recently explained this as follows:<sup>10</sup>

*“The principle of constitutional law that fundamental rights must only be encroached upon on the basis of an Act of Parliament (essentiality doctrine) specifically aims at determining whether the primary competence for the assessment of limitations of fundamental rights is well-founded or unjustified. It makes sure that the lines between an admissible and an inadmissible use of fundamental rights and between an admissible and an inadmissible limitation of fundamental rights are not defined on a case-by-case basis according to the own estimation of random public authorities or courts, but are primarily drawn by the legislator, by way of a general Act of Parliament.”*

#### 2. Contextual requirements

Moreover, such legal basis by an Act of Parliament must, apart from its formal legality as to competence, form and

procedure, satisfy certain contextual requirements, especially the principles of clarity and proportionality.<sup>11</sup>

#### a) Clarity

Under the principle of clarity, it is necessary that the legal basis is sufficiently clear, i. e. that it defines the contents, purpose and extent of the encroachment in a manner clear enough for the addressee of the provision to adapt his behavior accordingly. The BVerfG describes this as follows:<sup>12</sup>

*“The proviso of the law does not only apply to the material requirements for an encroachment upon fundamental rights, but also to the formal ones. A regulation by an Act of Parliament is necessary for any aspects having a procedural or material relevance with regard to the realization of fundamental rights. The requirements for the admissibility of an encroachment must be specified in a manner sufficiently clear and precise.”*

#### b) Proportionality

Furthermore, the legal basis must satisfy the principle of proportionality. For this, it is necessary for the authorized measure to pursue a legitimate aim and to be suitable, necessary and appropriate for its achievement.<sup>13</sup>

### IV. The opt-out fee

Is there a legal basis for the opt-out fee which satisfies these requirements?

#### 1. Legal basis?

A legal basis expressly authorizing the charging of an opt-out fee is looked for in vain in the UPCA. Having regard to its context, it should as such be part of Art. 83 UPCA which sets out the material conditions for an opt-out. However, this is not the case.

#### a) Art. 36 UPCA

What the UPCA does provide for explicitly is the charging of court fees for financing the budget of the Unified Patent Court (Art. 36 UPCA). Does this constitute a legal basis also for the opt-out fee? Art. 36(3) UPCA deals with the fixation of court fees, their composition and the principles to be taken into account here. It stipulates:

*“3. Court fees shall be fixed by the Administrative Committee. They shall consist of a fixed fee, combined with a value-based fee above a pre-defined ceiling. The Court fees shall be fixed at such a level as to ensure a right balance between the principle of fair access to justice, in particular for small and medium-sized enterprises, micro-entities, natural persons, non-profit organisations, universities and public research organisations and an adequate contribution of the parties for the costs incurred by the Court, recognizing the eco-*

<sup>7</sup> Cf. e. g. BVerfG E 61, 82 (113); 51, 150 (156); 49, 220 (225).

<sup>8</sup> For further details see e. g. BVerfG E 98, 218 (251); 95, 267 (307 f.).

<sup>9</sup> Epping/Hillgruber/Huster/Rux, BeckOK GG, 24<sup>th</sup> ed. (2015), Art. 20, para. 179.

<sup>10</sup> BVerfG, 2 BvR 228/12, decision of 20/02/2013, para. 53.

<sup>11</sup> For more details cf. Pieroth/Schlink/Kingreen/Poscher, Grundrechte, 30<sup>th</sup> ed. (2014), para. 285 ff.

<sup>12</sup> BVerfG, footnote 10, para. 54.

<sup>13</sup> BVerfG, 1 BvR 370/07 and 1 BvR 595/07, judgment of 27/02/2008, para. 218 (w.f.r.) = E 120, 274 (318 f.).

*conomic benefits to the parties involved, and the objective of a self-financing Court with balanced finances. The level of the Court fees shall be reviewed periodically by the Administrative Committee. Targeted support measures for small and medium-sized enterprises and micro entities may be considered.”*

An opt-out fee is not mentioned anywhere. Instead, it becomes obvious that court fees in that sense can only be raised for disputes brought before the Court within its competence under Art. 32 UPCA, only these actions do have a “value in dispute” (“Streitwert”) as it is mentioned in the German version of Art. 36(3)2 UPCA. Art. 36 UPCA does not provide a suitable legal basis for the collection of an opt-out fee.

## **b) Art. 41 UPCA**

This has also been noted during the public consultation on the Rules of Procedure held between June and October 2013, in which several commentators raised the question about the legal basis of the fee.<sup>14</sup> The Drafting Committee, in the person of Prof. *Tilmann*, just provided the following comment which is as astonishing as it is brief:<sup>15</sup>

*“The legal basis for the opt-out-fee is Art. 41(1). The fee is a ‘detail of the opt-out-procedure’.”*

Art. 41(1) UPCA reads as follows:

*“1. The Rules of Procedure shall lay down the details of the proceedings before the Court. They shall comply with this Agreement and the Statute.”*

Art. 41(1) UPCA does likewise not mention an “opt-out procedure”. Instead, it relates to the “proceedings before the Court” and their procedural arrangement, while for the latter reference is made to the Rules of Procedure. Insofar, it seems obvious that, again, these “proceedings” relate to the actions specified in Art. 32 UPCA which fall within the competence of the Unified Patent Court. Incidentally, it is worth noting that an “opt-out procedure” is not mentioned in Art. 32 UPCA. The reference to the Rules of Procedure may work with regard to charging court fees for said actions, because Art. 36 UPCA expressly provides for the collection of these fees and thus constitutes a respective legal basis, so that the details of these fees can be regulated in the Rules of Procedure.

In the opinion of Prof. *Tilmann* and the Drafting Committee, Art. 41(1) UPCA is the respective legal basis for the opt-out fee, the details of which are specified in the Rules of Procedure. However, in order to form a suitable basis for an encroachment upon the protected property position constituted by patents and patent applications in the sense of Art. 83 UPCA which are covered by the protection of German fundamental rights, it would still have to satisfy the abovementioned further requirements from constitutional law.

<sup>14</sup> Cf. “Responses to the Public Consultation on the Rules of Procedure of the UPC”, document “Comprehensive Digest”, accessible at [bit.ly/3h6HEWv](http://bit.ly/3h6HEWv).

<sup>15</sup> *Ibid.*, p. 12, section “Rule 5.3”.

## **2. Essentiality doctrine?**

According to the essentiality doctrine, the prerequisite for an encroachment upon fundamental rights as it is at issue presently with regard to Art. 14 GG is a respective legal basis within a formal Act of Parliament.

There is no mention at all in the alleged legal basis of Art. 41(1) UPCA of an obligation to pay an opt-out fee. It refers to the Rules of Procedure for the procedural arrangement of the “proceedings before the Court”, and thus to secondary legislation, from the Rules<sup>16</sup> 370(2)(a), 5(5) and 5(8) of which the obligation to pay a fee is meant to follow. As it is known, the preparation of the Rules of Procedure falls into the competence of the Preparatory Committee which widely delegated this task to the so-called Drafting Committee, a body composed of judges and lawyers. The final version of the Rules of Procedure will have to be adopted by the Administrative Committee<sup>17</sup> of the Unified Patent Court (Art. 41(2) UPCA), which will also be competent for amendments. In this whole process, a Parliamentary involvement is not recognizable.

Due to the insufficient wording of Art. 41(1) UPCA, there are good reasons to deny that it covers charging an opt-out fee at all. Based on this understanding, the collection of such fee and the associated fundamental rights encroachment would ultimately be based on the Rules of Procedure and thus on a decision of an administrative committee, beyond any Parliamentary influence. This would be exactly the constellation which the essentiality doctrine strives to prevent, namely the self-empowerment by an organ attributable to the executive to encroach upon fundamental rights. In this case, a fee collection would be unconstitutional for this violation of the essentiality doctrine alone.

## **3. Clarity?**

Even if one was prepared to disregard these justified doubts and use Art. 41(1) UPCA as the legal basis of the opt-out fee despite its silence insofar, this would immediately raise the question about its sufficient clarity. As indicated above, the provision does not mention such fee with even a single word, so that the necessary clarity as regards content, purpose and extent is missing. If one is prepared to understand Art. 41(1) UPCA as the legal basis for charging the fee, it violates the constitutional clarity principle.

## **4. Proportionality?**

Even if Art. 41(1) UPCA was regarded as a sufficiently clear legal basis for charging the fee, it would have to satisfy the principle of proportionality.

The first requirement for this would be that collection the fee serves a legitimate purpose. The purpose of the opt-out fee is primarily of a prohibitive nature. It aims at preventing the European patents and respective applications assigned to the competence of the Unified Patent Court by

<sup>16</sup> Pursuant to the 17<sup>th</sup> draft of the Rules of Procedure, cf. footnote 1.

<sup>17</sup> Cf. Art. 12 UPCA.

Art. 3 UPCA from being withdrawn from this competence by an opt-out under Art. 83 UPCA, thus striving to ensure that the Court has a sufficient workload from its commencing of work. Apparently, it is feared that otherwise the amount of opt-outs might lead to a situation in which the case numbers required for this cannot be achieved for the foreseeable future.

It can hardly be regarded as a legitimate purpose for the collection of a fee and the encroachment upon a property position protected by fundamental rights resulting from it, that this is meant to foster the utilization of a newly created court system. If it is feared that there might not be enough work for it, this should trigger the question whether there is in fact a need for its creation. The idea to ensure the Court's utilization by forcing certain user groups, some of them with retroactive effect, into its competence and make an "escape" from it subject to the payment of a fee, is not a legitimate purpose for the limitation of a fundamental right like the presently relevant Art. 14 GG.

Consequently, the collection of an opt-out fee on the basis of Art. 41(1) UPCA also violates the principle of proportionality.

#### **5. Consequences of a lacking legal basis**

Even if one was prepared to see in Art. 41(1) UPCA a regulation of the opt-out fee, this would be unlawful for its violation of the principles of certainty and proportionality. To that extent, other than, for instance, the court fees in Art. 36 UPCA, the opt-out fee does not have a valid legal basis in the UPCA which could be relied on for a more detailed regulation in the Rules of Procedure, so that the respective reference in Art. 41(1) UPCA is meaningless.

If the opt-out fee is collected nonetheless, for the European patents and patent applications which are covered by the protection of German fundamental rights and for which an opt-out under Art. 83 UPCA is available, it means an unjustifiable encroachment upon the fundamental right of the protection of property from Art. 14 GG and, accordingly, a breach of the constitution for this reason alone. This applies to any fee charged for an opt-out, whatever its amount may be. Each owner of a patent or a patent application affected by such fee collection is entitled to challenge this at the BVerfG.<sup>18</sup>

#### **V. Outlook**

The approach of trying to foster the adequate utilization of a newly created court system by making the use of a concurrent judicial competence dependent on the payment of a fee does not really show great trust and confidence of the Contracting Parties as to its expected acceptance. Vice versa, this feeds and increases the skepticism among the users.

This approach becomes fully bizarre as regards patents and patent applications which were granted or applied for prior to the entry into force of the UPCA and thus at a time at

which the new court system which they are now meant to be subjected to retroactively, has not even been existing. Such protective rights stand under the previous regime of legal protection, this should continue to be available for them free of charge.

Already due to these manifest doubts in the lawfulness of an opt-out fee under constitutional law its collection should be abstained from entirely, all the more since the confidence in the Unified Patent Court expressed by such step would be an important signal to the user circles.

However, this is not to be expected. Therefore, the constitutionality of such fee and of the Agreement purportedly providing for its collection may possibly have to be discussed in the future.

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For possibilities to support my work on the European patent reform please visit [www.stjerna.de/contact/?lang=en](http://www.stjerna.de/contact/?lang=en). Many thanks!

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<sup>18</sup> Cf. footnote 3.