

Article 50(1) of the Treaty on European Union (TEU) provides that any member state may decide to withdraw from the EU. The referendum on the UK's membership of the EU has been scheduled for 23 June. The electorate will be asked: should the United Kingdom remain a member of the European Union or leave the European Union?"

If the majority vote in the UK is to leave, what impact will a "Brexit" have on the protection and enforcement of intellectual property rights in the UK?

The terms on which any exit would occur would, after a Brexit vote, be negotiated between the UK government and the other EU members. Precisely how all this would work in practice is not spelt out in any detail in the TEU, which creates considerable uncertainty.

The Exit Scenarios

There are a number of exit scenarios. At one end of the spectrum, the UK would follow Norway's example and remain closely integrated with the EU. Under this "Norway model", the UK would become a member of the European Economic Area (EEA) and the European Free Trade Association (EFTA). The UK would have access to the EU single market, remain subject to the EU principles of free movement of goods, people, services and capital, and continue to make budgetary contributions to Brussels (albeit reduced). The UK would also remain subject to most EU legislation and to the Court of Justice of the European Union (CJEU) jurisprudence, via the EFTA Court. However, the UK would have much less influence over any new EU legislation.

At the other end of the spectrum is the "World Trade Organisation (WTO) model". This would see the UK break from the EU completely to rely on WTO rules. However, these rules would only govern future trade between the UK and other countries. In all other respects, the UK would become a sovereign island able to make its own policies on matters currently regulated by the EU, such as immigration. The UK would no longer be subject to EU legislation or CJEU judgments.

Which model is chosen will be a matter for negotiation between the UK, the EU and any other affected parties, including the current members of the EEA (Norway, Iceland and Liechtenstein). In general terms, the closer the post-Brexit relationship between the UK and EU, the lesser the impact on IP rights. However, some consequences for IP will follow regardless of the nature of the future relationship between the UK and EU.

Patents

The UK's participation in the existing European patent system would be unaffected by a Brexit. The system is governed by the [European Patent Convention](#) and is independent of the EU. Indeed, non-EU members, including Norway, Switzerland and Turkey, are signatories to the Convention and participate in the system. Following a Brexit, UK and non-UK patentees would, as they can now, be able to make a central application to the European Patent Office (EPO) designating the UK and, via that route, obtain national UK patent rights.

However, most EU states are in the process of implementing a new near EU-wide patent with its own dedicated court system. This new Unitary Patent will be obtained through the EPO in a manner identical to that used for existing EPC patent applications: a single application will be filed at the EPO, designating all EU states. Within a month after grant by the EPO, the patent owner has the option to file a request for unitary effect, which will lead to his patent then becoming a single Unitary Patent in all the EU member states which have signed up to the new patent system and have ratified the relevant agreements as of the date the request is filed.

The new Unitary Patent will have its own court – known as the Unified Patent Court – which will deal with validity and infringement. The new court will have multiple branches throughout Europe, each of which will be able to grant a Europe-wide injunction against a patent infringer as a result of a single set of legal proceedings in a single court. Equally, the new court will also have powers to centrally revoke a unitary patent across all the countries it has effect in.

It is envisaged that the new system will, subject only to any UK vote for a Brexit, come into effect at some point in 2017. However, 13 EU member states must first ratify the Unified Patent Court Agreement, including the UK, France and Germany. France has already ratified, but the UK and Germany have yet to do so pending clarification on matters such as court technology and judicial appointments.

Regardless of whether the Norway or the WTO model was chosen, a Brexit would impact on this system as it is underpinned by EU legal measures. The Unitary Patent regime is an EU initiative and participation is contingent upon being a member of the EU. Following a Brexit, the UK would no longer be eligible to participate absent further legislative measures. In the event of a Brexit vote the introduction of the new regime would inevitably be delayed as the underlying legal framework would have to be amended.

EU Trade Marks

EU trade marks (previously known as community trade marks) would be impacted by a Brexit, regardless of whether the Norway or the WTO model was chosen.

The EU trade mark regime is established by [EU legislation](#) and EU Trade Marks (EUTMs) give protection in every member state of the EU. In the event of a Brexit, existing EUTMs would cease to cover the UK. Trade mark proprietors wanting continued trade mark protection in the UK would have to obtain a national UK trade mark in addition to their EUTM. It is unclear exactly what would happen here. Presumably, transitional arrangements would be put in place allowing EUTM owners to convert their EUTM rights in the UK to a national right whilst retaining priority. The current system already allows the conversion of EUTMs into national rights and transitional arrangements are likely to follow a similar route. However, this would probably incur a fee, which could be substantial for large portfolios. The UK could also pass legislation to simply recognise the effect of EUTMs registered at the time of a Brexit, thereby postponing the need to convert to when the trade mark would be due for renewal. Whatever mechanism is adopted, what is certain is that the UK Intellectual Property Office will face an unprecedented increase in workload. This could mean delays for EUTM owners in obtaining their successor UK rights.

New EUTMs filings post-Brexit would not cover the UK. An applicant would have to apply for a separate UK national trade mark. That would mean that an applicant would incur increased trade mark protection and maintenance costs as a result of having to make two separate applications to achieve the same geographical coverage as a EUTM currently offers. EUTM application fees might need to be adjusted to reflect the reduced scope of EUTM protection.

A Brexit would also have other consequences for EUTMs:

- Pan-European injunctions based on EUTM rights would no longer cover the UK. In respect of new applications for injunctions post-Brexit, the EUTM owner would need to bring two sets of proceedings where an infringement is occurring in one or more EU member states and in the UK. One set of proceedings would be needed before a EUTM court for a pan-European injunction to prohibit the infringement in the EU member state(s). Another set of proceedings would be needed before the UK courts in respect of the UK infringement. This will result in increased litigation costs.
- The UK would fall outside the scope of existing pan-European injunctions. A EUTM owner would need to bring proceedings before the UK courts seeking a fresh injunction to prohibit a UK infringement which was previously covered by the Europe-wide injunction (or seek an extension of the pan-European injunction to cover the UK). This would, again, result in increased cost.
- A EUTM that has only been used solely or primarily in the UK could be vulnerable to revocation. The EUTM Regulation provides that a EUTM can be revoked where there has been no genuine use of the mark in the EU for a continuous five year period and there are no proper reasons for non-use. Following a Brexit, use in the UK is unlikely to count.

Designs

Registered community designs (RCDs) are akin to EUTMs. Many of the issues raised above in relation to EUTMs would apply also to RCDs. In particular, in the event of a Brexit, new and existing RCDs would not cover the UK, meaning that conversion of a RCD into a UK registered design, or a separate application for UK registered design protection, would be required. Equally, unregistered community designs would only give protection for the remaining parts of the EU, and only if and when they were made available to the public in the EU. This means that designers in the UK would be set to lose a strong and inexpensive IP right to defend their designs against copying.

Copyright

Copyright law has been harmonised at European level in numerous respects – for example the term of protection, the acts amounting to infringement, performers rights and qualifying criteria for protection. Important issues such as the liability of internet service providers are also provided by EU legal rules.

The extent to which these rules would be unpacked is unclear, and would create considerable uncertainty for rights owners in Europe during the post-Brexit negotiations.

Exhaustion of Rights

The principle of exhaustion of rights provides that where goods have been placed on the market in the EEA by the proprietor of a trade mark or registered design, or with his consent, the proprietor cannot rely on those rights to prevent further dealings with his goods (unless there are legitimate reasons to do so). Exhaustion of rights exists to promote free trade in the EEA. It is enshrined in the EU legislation on EUTMs and RCDs.

If the UK exited the EU using the Norway model, exhaustion of rights would be unaffected as the existing exhaustion rules apply within the EEA. If the WTO model was adopted, there would be no exhaustion rules. This means, for example, that trade mark or design rights in force in EU member states could be used to prevent goods first sold in the UK from being imported into, and resold in, the EU. Similarly, trade mark or design rights in the UK could be used to prevent goods first sold in the EU from being imported into, and resold in, the UK. Parallel trade in and out of the UK could decline. This could result in distinct UK and EU markets and price differentials.

Customs Seizure

[EU legislation](#) empowers IP owners to partner with customs authorities in EU member states to seize, detain and ultimately destroy imported goods which infringe their rights. This is a particularly important tool for trade mark owners in the fight against counterfeits.

This practice is unlikely to change if the Norway exit model is chosen as the EU legislation on customs seizure would, most likely, continue to bind the UK. However, under a WTO model, the UK would be free to reject the EU legislation and determine its own border controls. This, in conjunction with no exhaustion of rights, could mean that businesses will find it easier to prevent counterfeits from entering the UK, although at the same time it also increases the costs in maintaining two separate border measure applications for the UK and the EU.

Trade Secrets

The EU is on the verge of adopting a new [EU Directive](#) on the protection of trade secrets. The Directive seeks to harmonise trade secrets law across the EU. It defines what constitutes a protectable trade secret and provides for a common set of remedies where a trade secret has been misappropriated. In mid-April, the European Parliament voted in favour of the Directive. The Directive will come into force following formal adoption and publication in the EU Official Journal, which is expected during May. EU member states will have two years to implement the Directive into national law.

In the event of a Brexit, the model chosen to exit the EU would determine whether this Directive became part of UK law. Under the Norway model, the UK would still be subject to EU legislation and so would be obliged to implement the Directive into national law. Under the WTO model, the UK would be free to reject the Directive and amend or repeal any existing domestic implementing legislation.

Law

Vast amounts of EU law forms part of UK law, whether via directly applicable EU Regulations or from EU Directives that have been implemented into UK law via domestic legislation. A large part of UK legislation on intellectual rights comes from the EU.

Under the Norway model, the UK would still have to implement EU Directives concerning IP rights into national law. UK judges would be bound to follow the CJEU's interpretation of that legislation, via the decisions of the EFTA court. Under a WTO model, the UK would be free to reject all EU law. It is likely that the [European Communities Act 1972](#) would be repealed. All EU Treaty provisions and directly applicable EU Regulations would disappear from the UK legal landscape. The UK would also be free to amend, repeal and replace any domestic implementing legislation.

However, EU law is so interwoven with UK law that unravelling one from the other would likely be an arduous task, particularly in the area of IP. Assuming that the government would want to change the law, reviewing and replacing all legislation related to the UK's membership of the EU would take a significant amount of time. Accordingly, the impact of a Brexit on UK IP law would not be felt immediately. There would likely be a gradual divergence of UK and EU law as legislation is reviewed and replaced over time and as UK judges interpret this without the influence of CJEU precedent. This divergence would create uncertainty for IP holders and could make it more difficult and costly for IP owners to manage UK-EU cross-border transactions and to plan and implement IP enforcement strategies.

International obligations under treaties such as the [Berne Convention](#) would be unaffected by a Brexit.

Comment

If a leave vote prevails on 23 June, a Brexit would not follow immediately. Under Article 50 of the TEU, the UK would have an initial period of two years to negotiate the terms of its exit, which could be extended by agreement. This would likely give businesses some time to review and optimise their IP protection and enforcement strategies. Businesses that would prefer to begin preparing for a Brexit now, however, could consider, amongst other things:

- Reviewing their core IP agreements (licences, franchises and co-existence agreements) where the EU, or the countries in which the licensor has valid IP rights, is the defined territory.
- Supplementing their existing IP portfolio with UK rights for core brands or products.
- Beginning to use EUTMs as widely as the business will allow and, ideally, in a EU member state other than the UK.
- Tackling ongoing infringements now while they are sure of the enforceability of their IP rights and of the applicable law.

Contacts

Florian Traub

T +44 20 7655 1091

E florian.traub@squirepb.com

Andrew Clay

T +44 113 284 7655

E andrew.clay@squirepb.com