

So after all the shouting, the half-truths and the speculation, there it is, a vote by the United Kingdom to leave the EU. What does this mean for IP rights?

Let us be clear – no one knows all the details of what happens next, and that includes all the people who said that they did. But there is still plenty of reassurance available for many months, potentially years, into the future.

Remember that the vote is just a vote. By itself, it does not alter the legal relationships of the United Kingdom, Europe and the rest of the world. Even if the UK Parliament follows the stated wish of UK citizens and formally petitions to leave the EU, the constitutional procedures for an exit will potentially take years to run their course. There are unlikely to be material consequential changes to UK law during that time.

First of all, the formal process of termination must commence with the service of a termination notice from the UK government under Article 50 of the Treaty of European Union, which will start an initial two- year period (“Sunset Period”) of negotiation on the details of the withdrawal (“Withdrawal Agreement”).

It is likely that alongside of the negotiation of the Withdrawal Agreement, the UK and the EU will negotiate one or more additional agreements in respect of the details of their future relationship (“Future Relationship Agreements”).

If the Sunset Period is not extended by unanimous agreement of all Member States of the EU and if no Withdrawal Agreement is entered into within such two years, then the UK will automatically cease to be a Member State of the EU (“Unregulated Status”).

At this point the UK government’s position is that the timing of the service of the Article 50 notice is a matter for the next Prime Minister, who will not be in place until September 2016 at the earliest. Therefore, there is no certainty as to when the Sunset Period will commence, meaning that the actual date of Brexit remains uncertain.

During the Sunset Period, there will continue to be uncertainty, not only in relation to the economic consequences of a Brexit, but also in respect of the future regulation and legal rules for all sectors and industries.

This article considers likely scenarios, but the actual position will very much depend on the negotiations between the UK Government and the remainder of the EU.

How This Could Affect You

For the time being current EU law and EU-wide rights, such as the EU trade mark or the registered Community design, will continue to apply until the withdrawal from the EU comes into force.

So the good news is that owners of EU rights do not have to rush into immediate action, although it is advisable to consider a change in strategy.

The terms on which Brexit will occur are at this stage not foreseeable, which creates considerable uncertainty. We do however expect that:

- EU rights, like the EU trade mark or registered Community design, will cease to be valid in the UK.
- EU rights will continue to exist in the remaining 27 EU Member States with the option to be converted into UK national rights.
- IP infringements will have to be separately litigated in the UK and the EU.
- The existing European patent system will be unaffected, but the new Unitary Patent, once (and perhaps if) it comes into force, is unlikely to apply to the UK.

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 not have 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. 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 will be unaffected by 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 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 will have the option to file a request for unitary effect. This 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.

Brexit will affect the implementation of the Unitary Patent. The Unitary Patent regime is an EU initiative and participation is currently contingent upon being a member of the EU. Following Brexit, the UK will no longer be eligible to participate absent further legislative measures. This will make the system less attractive as patent owners wanting the benefits of a Unitary Patent will have to protect their patents both in the UK and as a Unitary Patent. Moreover, the UPC Agreement, to which the UK currently is a signatory, names London as one of the locations of the central division, alongside Paris and Munich. What precisely will happen to the Unitary Patent and the UPC is currently uncertain and will be a matter for negotiation in due course.

EU Trade Marks

EU trade marks (previously known as Community trade marks) will 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. When Brexit comes into effect, 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 will happen here. Presumably, transitional arrangements will 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 will 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 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, after the lapse of the Sunset Period and subject to any Future Relationship Agreements, will not cover the UK. An applicant will have to apply for a separate UK national trade mark. That would mean that an applicant will 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.

Brexit will also have other consequences for EUTMs:

- Pan-European injunctions based on EUTM rights will no longer cover the UK. In respect of new applications for injunctions post-Brexit, the EUTM owner will 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 will 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 will be needed before the UK courts in respect of the UK infringement. This will result in increased litigation costs.
- In the absence of transitional rules to the contrary, the UK will fall outside the scope of existing pan-European injunctions. A EUTM owner will 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 will, again, result in increased cost and may have an adverse effect on the enforcement of rights out of EUTMs in the UK territory during the interim period between Brexit and the coming into force of the fresh UK injunction, or of the conversion of an existing UK injunction.
- 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 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 will apply also to RCDs. In particular, following the lapse of the Sunset Period and subject to any Future Relationship Agreements, new and existing RCDs will not cover the UK, meaning that conversion of a RCD into a UK registered design, or a separate application for UK registered design protection, will be required. Equally, unregistered Community designs will only give protection for the remaining parts of the EU, and only if and when they are made available to the public in the EU. Designers in the UK are set to lose a strong and inexpensive IP right to defend their designs against copying.

Copyright

Copyright law has been partly harmonised at the European level – 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 for copyright infringements are also provided by EU legal rules.

The extent to which these rules may be unpacked is unclear, and would create considerable uncertainty for rights owners in Europe during the negotiations of the Future Relationship Agreements.

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 Directive on the protection of trade secrets is coming into force on 5 July 2016. The Directive harmonises 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. EU member states will have two years to implement the Directive into national law. As timings currently stand, it is likely that the UK will implement the Directive into UK law, although it could repeal that legislation following a Brexit if the WTO model was adopted.

Law

Vast amounts of EU law form 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 will be repealed. All EU Treaty provisions and directly applicable EU Regulations will disappear from the UK legal landscape. The UK will 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 is likely to 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 Brexit on UK IP law may not be felt immediately. There is likely to 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 may 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 in the area of IP law such as the Berne Convention, The Paris Convention, the Madrid System, etc. will not be directly affected by a Brexit.

Comment

The time it will take to unravel the UK from the EU will give businesses some time to review and optimise their IP protection and enforcement strategies, and, given the current political uncertainties, IP owners are well advised not to rush into immediate decisions. However, we advise businesses to begin preparing for Brexit now by considering, 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.
- Regulating the uncertainty created by the Brexit vote in any new IP agreements to be entered into. In particular, the following should be considered and documented:
 - Would the potential new legal rules and regulations to be adopted under a Withdrawal Agreement or Future Relationship Agreements give rise to termination rights; or would an Unregulated Status give rise to termination rights; or should termination rights be expressly excluded; or should all the parties live with the uncertainty?
 - Would the potential new legal rules and regulations to be adopted under a Withdrawal Agreement or Future Relationship Agreements; or would an Unregulated Status give rise to rights to demand amendments to the terms of the IP agreement; or should any such rights be expressly excluded; or should all the parties live with the uncertainty?

- Should existing IP portfolios be supplemented with UK rights for core brands or products?
- Consider filing EUTM and UK trade mark applications separately, either simultaneously or referring to Convention priority in the second application. The same applies for design rights.
- Consider beginning to use EUTMs as widely as the business will allow and, ideally, in a EU member state other than the UK.
- Ongoing infringements should be tackled now while there is greater certainty about the enforceability of IP rights and of the applicable law.

Additional Information

Please check our Brexit Legal blog: <http://www.brexitlegal.com>

We are setting up a series of client briefings to discuss the consequences of Brexit in more detail and will communicate relevant dates and details shortly. In the meantime if you have specific concerns arising from the Brexit vote or otherwise please contact your usual Squire Patton Boggs contact or any of the contacts below.

Contacts

Ranked as one of the top 15 global law firm platforms in the world by *Law360*, this firm is well positioned to advise clients on the effects of Brexit. Continental European qualifications of the firm's partners Florian Traub and Iliana Haleen, amongst other experts, and our network of European offices mean that we will continue to represent clients in protecting their EU trade marks and designs, as well as acting before EU courts.

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