

Client Alert: Potential Legal Implications Arising from “Brexit”



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On June 23, 2016, the United Kingdom (UK) voted by way of an advisory referendum to leave the European Union. While the result will not take immediate legal effect, incoming Prime Minister Theresa May has indicated that “Brexit is Brexit” and that the process will go forward. This has led to substantial uncertainty regarding the potential implications in a wide range of sectors including IP, trade agreements, investment treaties and commercial arbitration.

According to Article 50 of the Lisbon Treaty, once notice of intention to withdraw is given, the UK and the EU have two years to negotiate the conditions of the UK’s withdrawal including the framework of their relationship going forward. Any agreement will require the support of 20 out of the 27 remaining EU member states, as well as the European Parliament (Article 238(3)(b) Lisbon Treaty). Given this tiered legal process, the status quo will apply until the entry into force of the withdrawal agreement or, failing that, two years after the notification date, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period (Article 50.2 Lisbon Treaty).

An additional complication is the potential consequences for Scotland. In the event that the UK Government invokes Article 50, it is unclear whether Scotland must have assent to it first for it to take effect. Scotland’s First Minister Nicola Sturgeon has said that Brexit does not apply to Scotland, and announced that the Scottish Parliament could block the UK’s exit from the EU under UK law. Given this uncertainty and assuming that Article 50 is invoked, there are five main models that could apply for the UK’s future relationship with the EU:

EEA MEMBERSHIP

The UK might opt to join the European Economic Area, as Norway, Iceland and Liechtenstein have done. This would allow the UK to enjoy many of the benefits of the EU’s internal market without certain of the obligations of full EU membership. Adopting such a model would require the agreement of the remaining 27 member states as well as Norway, Iceland and Liechtenstein. This may be the most straightforward approach.

THE SWISS MODEL

The Swiss model is a series of bilateral agreements between Switzerland and the EU to obtain partial access to free movement of goods and people. The agreements do not extend to services and limit the financial contribution required from Switzerland. With respect to the UK, this is an unlikely model given its complexity and the fact that the EU is considering adjusting this model to an approach similar to the EEA agreement.

CUSTOMS UNION

A customs union is currently in place between Turkey and the EU. It allows for tariff-free access to the EU internal market for goods, but not services. It also allows for the adoption of an external tariff that is aligned with that of the EU. Under this model the UK would not have to contribute financially to the EU, but the passport regime (allowing free movement of people) would not be available. The result would be that UK businesses would be required to obtain separate licensing in each EU member state to provide services to that particular jurisdiction. The UK would also be required to maintain and/or harmonize any new laws with those of the EU in areas such as competition, consumer protection and intellectual property.

FREE TRADE AGREEMENTS

A standalone free trade agreement with the EU could remove tariffs and certain other barriers in the trade of goods and services. However, to trade with the EU, the UK would still have to comply with certain regulations such as EU safety standards. This is further complicated by the UK's status in the pending CETA (EU-Canada) and the still to be finalized Transatlantic Trade and Investment Partnership ("TTIP" between the EU and the United States), particularly as those agreements depend on certain commitments made in the WTO as an EU member. Moreover, outside the EU context, the UK may not be as attractive a market for a stand-alone FTA.

WTO MEMBERSHIP

The UK is both an independent member, and a member of the EU delegation to the WTO, which governs agreements on a wide range of trade issues, including tariffs on goods, trade in services, intellectual property rights, trade remedies, and phytosanitary rules. This would be the purest form of exit from the EU and would mean that the UK would have control of its trade policy under existing WTO rules. This will, however, involve separating the UK out of market access commitments that were made on an EU level, and negotiating new commitments on an individual level. Certain recent WTO members, having gone through arduous negotiations to accede, may not be willing to simply change the UK's status.

More generally, any agreements between the UK and third countries which are governed through EU-based accession, such as the plurilateral WTO agreements (particularly the Agreement on Government Procurement, which grants access to government procurement) will also be affected

and will have to be re-negotiated individually. Since most of these types of concessions were already made on a UK-level, these negotiations could conclude by simply adopting the status quo concessions.

Considerations for Specific Sectors Resulting from Brexit:

The effects on legislation are expected to be quite disruptive. There will have to be a wholesale review of the UK law, particularly in areas subject to EU regulation.

CONTRACTS AND DISPUTE RESOLUTION CLAUSES

The implications on contractual relationships will probably be more evident on cross-border contracts rather than on domestic matters, as English contract law has continued developing outside the EU. The UK is part of an EU framework that decides jurisdiction in disputes, recognizes judgment of other member states and decides the law that governs contracts. Leaving the EU would mean that the UK would no longer be part of this framework which may lead to changes in the willingness of parties to select the UK as the agreed forum for the resolution of disputes or UK law as governing law in contracts. Also, if an international contract with ties to the UK does not contain a choice of law or a choice of forum provision, there may be added complexity in identifying the applicable law and forum.

INVESTMENT TREATIES

As indicated above, finalized comprehensive agreements such as those with Canada (CETA) and Singapore (EU-SING), which contain investment protection provisions, may be re-opened and re-negotiated to accommodate the UK's exit, further delaying ratification. The same could occur with respect to the TTIP negotiations, although certain U.S. legislators are urging President Barack Obama to begin separate negotiations with a newly independent UK. The UK has a number of stand-alone investment treaties that should remain unaffected. But there are some who worry that Brexit will cause a fall in foreign direct investment in the UK. Accordingly, it may have to negotiate additional investment treaties.

INTELLECTUAL PROPERTY

The potential consequences of Brexit are different depending on the type of IP right.

Copyright

As regards to copyright, the impact should be extremely limited since harmonization was in many respects incomplete.

Patents

European patents should not be affected by Brexit because the Munich Convention is not a European Union instrument. It currently has 38 Contracting States and some of them (for example Switzerland, Norway and Turkey) are not members of the European Union. There is little doubt that the UK will remain a Party to the Munich Convention.

On the other hand, the “Unitary Patent” is a creation of the EU and Brexit means that its entry into force, if we ever see it, will be considerably delayed. Article 80 (1) of the UPC Agreement provides that the three Member States in which the most number of European patents had effect in the year preceding the year the agreement was signed, need to ratify the agreement before it can come into effect. These three countries are Germany, France and the UK, but it now seems unlikely that the UK will ratify it.

Important aspects of the UPC system will have to be renegotiated. For example, it had been agreed that the Central Division would be seated in Paris with sections in London and Munich dealing with cases concerning specific patent classifications. London was to deal with human necessities, chemistry and metallurgy. Another location will have to be found for these.

One of the main benefits expected from the UPC was that patent owners would be able to get judgments (injunctions, damages) that would be effective in all Member States. With Brexit, these judgments will not be effective in the UK.

Trademarks

European Union Trademarks were created by Council Regulation (EC) No 40/94 of 20 December 1993, and the regulation in its current form does not indicate what happens when a Member State leaves the Union.

The main feature of EU trademarks is that they are not a bundle of various national rights, but trademarks with their own regime (with a “unitary character”), that is, the owner obtains a single right valid in the 28 Member States. As a consequence, absent some sort of agreement to the contrary, Brexit means that EU trademarks will no longer be recognized in the United Kingdom. In theory, EU trademark owners could simply lose their rights in the United Kingdom, but the UK will have to find a solution to facilitate the conversion of EU trademarks into UK national trademarks so that trademark owners do not lose the benefit of priority. This will mean additional costs for trademark owners.

The rights of an EU trademark owner can be revoked if, within a continuous period of 5 years, the trademark has not been put to genuine use in the EU. The requirement of a “genuine use” in the EU may be satisfied even though the trademark has been used within a single Member State. What will happen to trademarks which were used mainly in the UK? They could be challenged as no longer in “genuine use” in what is left of the European Union. The withdrawal agreement could provide for a transitional period during which UK businesses or international businesses focused on the UK will be given the opportunity to consolidate their rights in the European Union.

Another issue that arises is in relation to the exhaustion of rights principle. A trademark owner cannot prohibit the use of its trademark in relation to goods which entered the EEA with its consent. It can use its EU trademark to stop products from entering the EU, but once it has let genuine products into the EEA, it cannot prevent them from circulating from one country to another within the EU. If the UK decides to join the EEA, owners of EU trademarks will not have the possibility to stop genuine goods which have been put on the UK market from being exported to the EU. If the UK does not join the EEA, trademark owners will have the possibility to stop these goods at the EU border.

There will also be consequences for trademark licenses. When the geographical scope is the “European Union,” will this be interpreted as meaning all the member countries at the time the agreement was signed, or all the member countries at the time the contract is being interpreted?

Designs

The above observations about EU trademarks also apply to Community designs except that there is no requirement of genuine use.

Foley Hoag continues to monitor the developments and remains available should you like to discuss the potential effects of Brexit on your business.