



Law Society
of Scotland

Response by the Law Society of Scotland

Inquiry by the Scottish Parliament's Culture, Tourism,
Europe and External Affairs Committee on Article 50:
Preparedness

October 2018



Introduction

The Law Society of Scotland is the professional body for over 11,000 Scottish solicitors. With our overarching objective of leading legal excellence, we strive to excel and to be a world-class professional body, understanding and serving the needs of our members and the public. We set and uphold standards to ensure the provision of excellent legal services and ensure the public can have confidence in Scotland's solicitor profession.

We have a statutory duty to work in the public interest, a duty which we are strongly committed to achieving through our work to promote a strong, varied and effective solicitor profession working in the interests of the public and protecting and promoting the rule of law. We seek to influence the creation of a fairer and more just society through our active engagement with the Scottish and United Kingdom Governments, Parliaments, wider stakeholders and our membership.

The Society's Brexit Policy Working Party welcomes the opportunity to respond to the Inquiry by the Scottish Parliament's Culture, Tourism, Europe and External Affairs Committee on the Impact of Brexit Negotiations on Scotland. The Brexit Policy Working Party has the following comments to put forward for consideration.

General Comments

1. What impact the Article 50 negotiations have had upon individuals, businesses and organisations to date?

It is difficult to assess the impact which the article 50 negotiations have had upon individuals, businesses and organisations. In common with many organisations, we are aware of work by other bodies which indicates that there is significant uncertainty amongst individuals, businesses and organisations and that it is therefore difficult to plan for all eventualities.

The Society polled its members in late 2017. The results indicate that solicitors are more likely to think Brexit will have a negative impact on their business than a positive one. Annex 1 provides further detail. A further survey is expected to take place later this year.

2. What preparations, if any, are being made by individuals, businesses and organisations for the range of scenarios which may result from the Article 50 negotiations?

It might be helpful to identify the scenarios which are possible. The tables in Annex 2 describe four negotiating scenarios and their associated legislative activity based on current UK Government proposals and also where no agreement is reached before March 2019.

Scenario 1 covers the legislative impact of an October Withdrawal Agreement with a framework for the Future Relationship.

Scenario 2 covers the legislative impact of a November Withdrawal Agreement with a framework for the Future Relationship.

Scenario 3 covers the legislative impact of a December Withdrawal Agreement with a framework for the Future Relationship.

Scenario 4 covers the legislative impact of no Withdrawal Agreement being reached at the December EU Council.

The Society has scoped the impact on practitioners who may wish to continue to work in the EU after exit. The Journal of the Law Society of Scotland published an article¹ offering advice to Scottish solicitors based in other EU Member States on how to guarantee, as far as possible, the ability to continue working in their chosen jurisdiction (while pointing out the limitations that being outside the single market will place on them); and in the October edition (not yet available), there is a further article aimed at Scottish solicitors based in the UK but with an EU dimension to their work. This article covers issues such as the impact on the ability to provide fly-in fly-out services in other EU member states, the impact on legal professional privilege and rights of audience in the EU, and considers ways to potentially mitigate some of these outcomes.

There is little empirical data available to indicate what preparations are being made by solicitors and their clients for a range of scenarios. Prudence dictates that solicitors and their clients prepare for withdrawal from the EU on 29 March 2019 without a Withdrawal Agreement being in place. Any other approach to withdrawal has significant risks attached to it.

Published information includes the Thomson Reuters report, *The impact of Brexit on dispute resolution clauses*,² looking at legal issues arising from Brexit and the reaction of clients to them. That report (which is focused on the English legal system) indicates that more than a third of international companies are moving their choice of dispute resolution forum away from English courts to other jurisdictions before Brexit. The report also showed that 35% of businesses had changed their choice of law from English law to the law of another jurisdiction. More than half of those companies had changed their clauses to specific jurisdictions in the EU, with France and Germany being the most popular. The remainder chose other jurisdictions such as the US, Canada and China.

3. What the impact of a no-deal outcome would be for Scottish individuals, businesses and organisations?

¹ <http://www.journalonline.co.uk/Magazine/63-9/1026294.aspx>

² [https://uk.practicallaw.thomsonreuters.com/w-015-2475?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/w-015-2475?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1)

The legal consequences of leaving without a Withdrawal Agreement being in place on 29 March 2019 would be as follows: –

- A. Under article 50 if there is no Withdrawal Agreement in place on the date of exit the treaties ‘cease to apply’ and the UK’s membership of the EU ends. This effectively removes the United Kingdom from the ambit of the treaties, ends the direct effect of EU law and excludes the United Kingdom from the European Union institutions.
- B. The European Union (Withdrawal) Act 2018 would come into effect. That act repeals the European Communities Act 1972, transposes existing EU law into domestic UK law and makes provision for the removal of the Charter of Fundamental Rights from UK law. Section 6 of the European Union (Withdrawal) Act provides that “a court or tribunal...is not bound by any principles laid down, or any decisions made, on or after exit day by the European Court, and...cannot refer any matter to the European Court on or after exit day.”
- C. Other provisions of the European Union (Withdrawal) Act including those which affect the legislative competence of the Scottish Parliament and Administrative Competence of Scottish Ministers come into effect. This would include matters which touch on the intersection of EU Law with devolution and have implications for the application of common frameworks.

4. To what extent, the guidance issued by the European Commission and UK Government has been helpful in helping to prepare for the UK’s withdrawal from the EU?

The Technical Notices³ issued by the UK Government and the Preparedness Notices to Stakeholders⁴ issued by the European Commission are helpful in a limited way and are focussed on the situation in the event of there being no deal. We have begun examining notices in various areas of interest to Scottish solicitors. Our comments on notices relating to intellectual property law and civil judicial cooperation are set out below.

Intellectual Property (IP)

Copyright

In the field of copyright, international treaties govern the core elements of copyright law. These will continue to form the basis of the UK/EU relationship in relation to copyright law. This may provide

³ <https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal>

⁴ https://ec.europa.eu/info/brexit/brexit-preparedness/preparedness-notices_en

reassurance to stakeholders seeking to understand the post-withdrawal position in relation to those aspects of copyright.

However, the EU has specific rules which go beyond these and both the UK and EU notices on copyright therefore offer an overview of the following:

- *Sui generis* database rights
- Online content portability
- Satellite and cable broadcasting
- Collective rights management
- Orphan works
- Collective rights management; and
- Accessible format copies

The note confirms that the current rules will remain in force post withdrawal in terms of the domestic system. In terms of UK/EU activities, the EU note clearly sets out the consequences for the UK as a third country; the UK does so in a slightly different format. While the UK note contains positive narrative around the likelihood of reaching a deal, the implications for a “no deal” would essentially require the majority of stakeholders to consider further action, which in practical terms would necessitate seeking legal advice. From the perspective of legal practitioners specialising in IP, the note offers little assistance beyond confirmation of continuation of the existing domestic position.

Patents and Supplementary Protection Certificates (SPCs)

The UK Government note on patents incorporates SPCs, on which there is an EU note. On SPCs the UK note covers biotechnological inventions, processes for compulsory licence and exceptions for trials, studies and tests. The UK note confirms that post withdrawal the existing patent system, including rules relating to SPCs, will remain in place but would operate independently from the EU regime. Existing rights and licences will also remain in force so no further action is required. The EU note is much shorter and outlines how SPC legislation will be applied in the event that no further deal is reached. The note confirms that authorisation to place the product on the market granted by a UK competent authority as of the withdrawal date will not be considered a first authorisation to place the product on the EU market but if the authorisation is granted before the withdrawal date, then it is to be considered first authorisation.

The UK note, being wider in scope, also addresses the issue of the Unified Patent Court (UPC) and unitary patent (UP). The UPC has not yet been ratified by Germany: its entry into force (and therefore timings) are contingent upon this taking place. If the UPC does come into force, the note confirms that the UK will explore the possibility of remaining a participant.

Finally, the UK note tackles correspondence addresses and confidentiality. In this section it sets out that “European Patent Attorneys based in the UK will continue to be able to represent applicants before the European Patent Office.” Under the European Patent Convention, a which is a non-EU instrument, communications between clients and registered IP practitioners will continue to attract legal privilege.

Trade marks

We consider that the notice raises some worrying questions.

Existing registered European Union Trade Marks (EUTMs)

What is the duration of the ‘equivalent’ or ‘new’ UK trade mark?

The notice refers to “providing an equivalent trade mark” in the UK for existing EUTMs. It is not clear from the notice whether the right will be a ‘new’ TM (lasting 10 years from the exit date) or whether it will provide protection for the remainder of the time which the existing EUTM has to run. In the design section of the notice, this point is much clearer: “all unregistered Community designs which exist at the point the UK leaves the EU will continue to be protected and enforceable in the UK for the remaining period of protection for the right”.

Existing EUTMs and continued validity - Will there be a ‘new’ five-year period to allow use before the EU27 registration becomes vulnerable to revocation?

The note states that existing EUTMs will continue to be valid in the remaining EU Member States. Although this is correct, the rights which attach and are at the right holder’s disposal may be different.

The current registration is being split into two registrations: EU27 and UK. Many UK owners of EUTMs have only used EUTMs in the UK– but have taken advantage of the cost-effective registration route and possibility of expanding operations in due course (anticipating the ability to exercise rights of free movement of goods/services). A possible impact on UK based EUTM owners is that the EU27 mark may, in practice, cease to be practically enforceable by reasons of non-use from the exit date. At present, genuine use “in the Union” is required (EUTM Regulation 2017/1001 art 18(1)) this currently includes in the UK. After 29 March 2019, the EU27 registration may not be as effective at preventing a new third party application. It may be vulnerable in a way that it would not have been so before the exit date.

Will there be a ‘new’ five-year period to allow use before the EU27 registration becomes vulnerable to revocation? If not, it is arguable that the rights are not necessarily equal to those currently held.

New, equivalent UK right to be granted with minimal administrative burden

A few questions arise as to how this will operate in practice, particularly:

- Is this a ‘new’ trade mark lasting ten years or does it tie to the existing EUTM renewal date?
- What is the charge, if any, in monetary terms for acquiring this new right?

- Is the charge to be the same as for a new application but the administration is lessened insofar as expedited processing, examination, opposition period etc?

As above, will there be a 'new' five-year period to allow use before the UK registration becomes vulnerable to revocation?

Right holders to be notified that a new UK right has been granted and any EUTM holder who does not want to receive a new comparable UKTM able to "opt out"

We recognise the desirability to have the process as easy as possible for existing EUTM registrations. The existing right will be split into two registrations: EU27 and UK (term of UK right still unclear). The UK registration will be automatic unless the party chooses to opt out.

There will be many more UK marks as all holders of EUTMs (from all countries) will be given a UK mark. The UK Intellectual Property Office's (UKIPO) current practice when examining a new application is to notify earlier right holders with a UK registration, but not to notify EU right holders.

There are questions as to whether this practice would continue. If so, it is likely to result in many more oppositions to UK applications as more notifications will be sent to the holders of earlier rights. This is especially true if the 'new' UK rights come with a new five-year period to use the mark in the UK before becoming vulnerable to non-use revocation.

The 'new' right will be in place from 30 March 2019. Forms TM22 (total surrender) and TM23 (partial surrender) have no fees. However, if there is a cost to obtaining the 'new' registration, right holders who do not wish to incur this cost will need to make this clear in advance of the exit date. Communication on this is needed without delay. Clarification is also needed as to when the opt out deadline will be.

Applicants with pending applications

Applicants with pending applications for an EUTM will not be notified and after exit will need to consider whether they refile with the IPO to obtain protection in the UK. There will be a cost in communicating the situation to EUTM applicants. Practitioners will have to bear this. There is also the actual cost of a standalone UK application – UKIPO fees and practitioner fees. If there is no agreement that the UK IPO will automatically accept terms which the EUIPO has accepted, there are also perhaps enhanced processing costs. Whilst the two systems (EUIPO and UKIPO) are technically harmonised, there are often differences in how each office will examine applications for identical goods and services.

Government involvement and assistance in the education process is essential; otherwise, there is a danger that practitioners are disproportionately affected re: time, cost and duplicate efforts.

Ability to apply for EUTMs – representation issues

The note states that applicants will continue to be able to apply for protection in the EU through an EUTM as they do currently. This is technically accurate but it is important to highlight that this does not allow the involvement of any professional advice.

Applicants have always been able to file an application for an EUTM without representation. There are a limited number of dealings with the EUIPO that can be handled without representation. These are: i) filing an application; ii) making an application for renewal; and iii) making an application for inspection of files. In all other cases, the party requires to be represented. If an EUTM application is opposed (which 1 in 5 are), the party needs a representative. Any opposition, invalidation or revocation proceeding also requires a representative (which will not include a Scots lawyer or a UK Chartered Trade Mark Attorney). Therefore, whilst it is technically accurate to say applicants can file EUTM applications, it is arguable that this should not be being actively encouraged. This is the equivalent of encouraging clients to write their own commercial contracts or draft their own wills.

EUTM applications - Will the goods and services of published EUTMAs be examined afresh by the UKIPO?

These are marks which have been filed but not yet registered at 29 March 2019. The notices state that the Applicant will have a period of 9 months from the exit date to apply in the UK for the same protections, retaining the date of the EU application for priority purposes. It is arguable that this proposal is contrary to Article 4 (see 4A and 4C) of the Paris Convention.

Furthermore, the notice states that applicants will be able to “refile” with the UKIPO “using the normal application process” – ie Standard Official Fees of £170 + £50 for each additional class. A standard “refile” suggests fresh examination – more work and more costs for applicants and advisers.

Internal Registrations (IRs) (Madrid)

The notice states “the government will work” to provide continued protection in the UK for IRs which designate the EU. This provides little meaningful information or assurance at this stage.

Representation Rights

The notice makes clear it is not discussing representation rights. However, this is still of paramount importance to Scottish solicitors and Chartered Trade Mark Attorneys. The notice is not being criticised for its lack of comment on the representative information, as it purports to focus on right holders. However, the two matters cannot not be dealt with in isolation and the notice ignores the fact that right holders acquire trade marks and enforce rights with help from their Scottish-based advisers.

Producing food products protected by a ‘geographical indication’ (GIs)

We note that Defra has launched a consultation on establishing a UK system for GIs following withdrawal from the EU. The domestic arrangements are therefore underway, although at present, all we know is that in the event of a no-deal, the UK will set up its own system which will provide “similar” protections to those

currently enjoyed. This implies that they will be different rather than a direct transcription of the current EU laws into UK law. This may raise concerns for both producers and consumers: we would not want to see any weakening of the existing protections.

The statement that EU GI status would no longer be recognised is troubling in two respects. First, if we do not recognise EU GI status, it is unlikely that the EU will recognise our own GI's. Secondly, it completely ignores the interests of consumers. For example, as things stand if a consumer purchases a product which is currently protected the consumer will be guaranteed a distinctive product of a particular quality produced in a certain identifiable area, whereas if GI protection is removed, it will allow cheaper, inferior products to use the previously protected name. Producers will have to fall back on the laws of passing off to prevent this happening. In the USA, certain European GI product names are considered generic, but they have always been generic and consumers in the US market do not expect them to come from a particular place so there is no real comparison.

The note also does not provide comfort in terms of timescales. The Government should recognise that it will take time to incorporate a new GI logo onto product packaging and suitable time will be needed to allow this to happen. Also, EU PDO and PGI marks are well known and enjoy a strong global reputation as a result of effective marketing. The paper is silent on how the UK GI system will be promoted so consumers around the world will know what it means. Any promotional campaign will cost money and it is not clear if funds would be made available for this purpose.

Exhaustion of IP rights if there's no Brexit deal

The UK Government has also produced a note on exhaustion of IP rights. Exhaustion of rights refers to IP rights which the holder can use to control distribution and resale of a protected product. Once the product has been placed on the market, these rights are exhausted. The UK note states that "the UK will continue to recognise the EEA regional exhaustion regime from exit day to provide continuity in the immediate term for businesses and consumers." This also means that there would be no change to rules affecting goods imports and would, according to the note, ensure that parallel imports (eg of pharmaceuticals) can continue.

However, the UK appears to intend unilaterally to treat a consented-to first marketing in the post-Brexit EEA as exhausting a right in a UK corresponding IP right. The EU/EEA doctrine of exhaustion arises out of the existence of the single market. A consented-to first marketing in a non-EU/non-EEA state does not prevent the assertion of IP rights within the EU/EEA to block imports. We note that "international exhaustion" is not precluded by Article 6 of the WTO Trade-relates Aspects of Intellectual Property Rights (TRIPS) Agreement. This Article provides that nothing in the TRIPS Agreement, with the exception of the obligations relating to national treatment and most-favoured nation (MFN) treatment (Articles 3 and 4 respectively), shall be used to address issues of exhaustion of rights. This is further confirmed by the 2001 WTO Doha Declaration on the TRIPS Agreement and Public Health which recognised that subject to the obligations of MFN and national treatment, Members are, "free to establish (their) own regime for such exhaustion." In respect of exhaustion arrangements, and as noted above, the EU/EEA operates a system

of regional exhaustion. It has been argued that, unless there is a future UK/EU free trade agreement, the existence of special rules about exhaustion which unilaterally removed IP barrier to goods from the EEA could be challenged as a breach of the MFN obligation and therefore incompatible with WTO obligations.

However, there may be restrictions on imports from the EEA side. As there is no parallel note from the European Commission, it is not clear what the position would be for those seeking to export to the EEA post Brexit from whom exhaustion of rights is a relevant consideration but as noted above, reciprocal exhaustion would need to operate within a framework which complied with WTO law.

Civil Judicial Cooperation

The UK Technical Notice on civil legal cases and the EU Notice to Stakeholders on civil justice and private international law cover the same ground but in different ways. The EU notice provides a position in principle that in the event of there being no ratified withdrawal agreement when the UK leaves the EU all Union primary and secondary Law will cease to apply in the UK whereas the UK Technical Notice explains that when the UK leaves the EU the reciprocity upon which civil judicial cooperation depends will come to an end and that the UK will repeal “most of the existing civil judicial cooperation rules and instead use the domestic rules which each UK legal system currently applies in relation to non-EU countries”. The UK Notice is more detailed because it is addressed to those who want to know what the UK will specifically do in a no deal scenario. The EU Notice on the other hand is addressed to those interacting with the EU and in acknowledging this directs readers to (in the case of enforcement) the national law of the state in which recognition and enforcement is sought or international conventions where the EU, Member States and the UK are parties. The UK paper is problematic on the issue of the effect on ongoing cases. The notice states that “Broadly speaking cases ongoing on exit day will continue to proceed under the current rules. However, we cannot guarantee that EU courts will follow the same principle know that EU courts will accept or recognise any judgement stemming from these cases”. This is a matter of great concern for those who need to know now whether to take action or wait until the situation is clearer with the attendant risks which delay creates.

5. What further support or guidance the Scottish Government, UK Government and / or European Commission should be providing to enable individuals, businesses and organisations in Scotland to prepare for the UK’s withdrawal from the EU?

We have no comment to make.

For further information, please contact:

Michael Clancy
Director Law Reform



Law Society of Scotland

DD: 0131 476 8163

michaelclancy@lawscot.org.uk

Members are more likely to think Brexit will have a negative impact on their business than a positive one

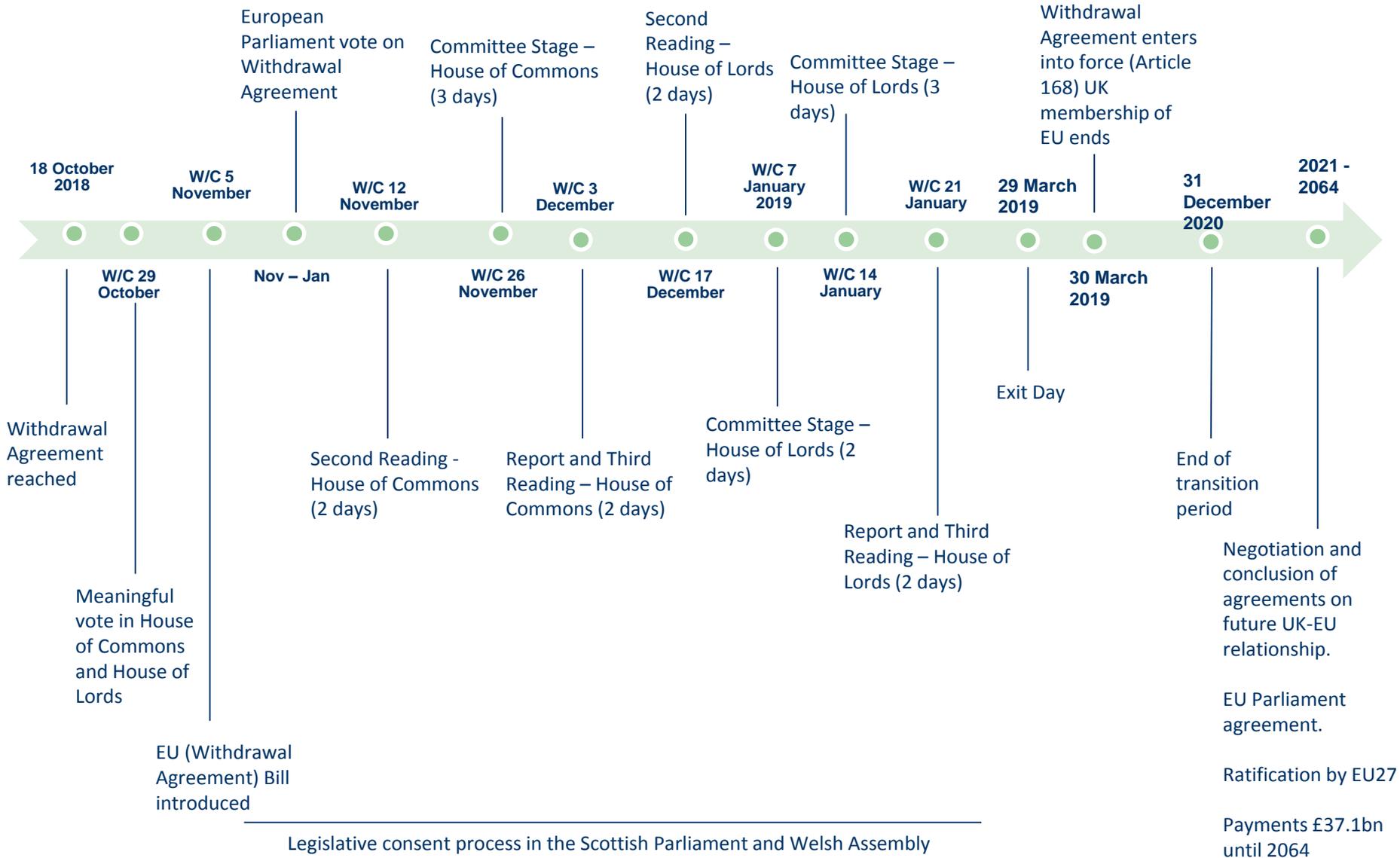
What impact do you think Brexit will have on your business or organisation over the next two years / next five years?



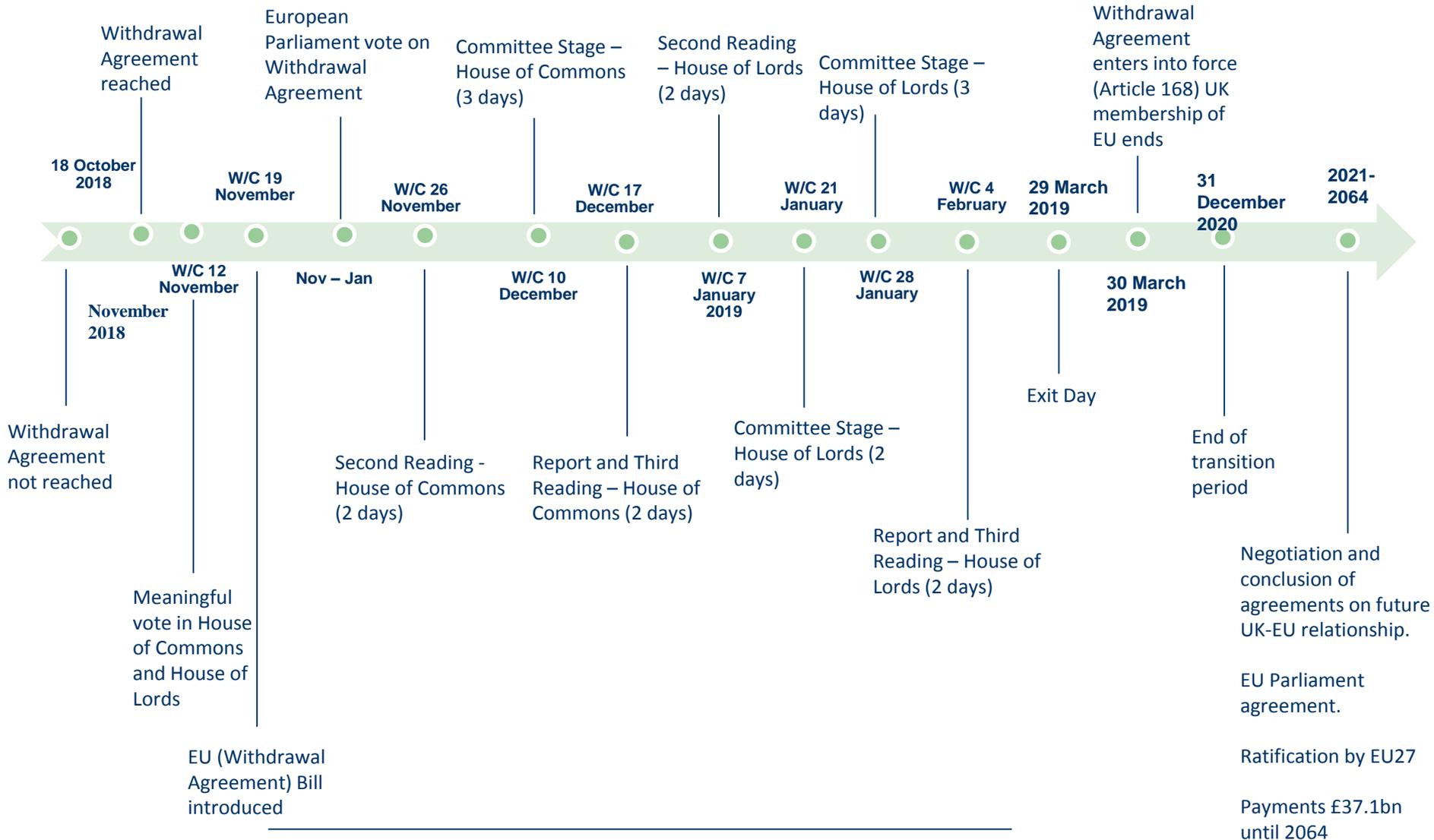
Base: All respondents

Annex 2

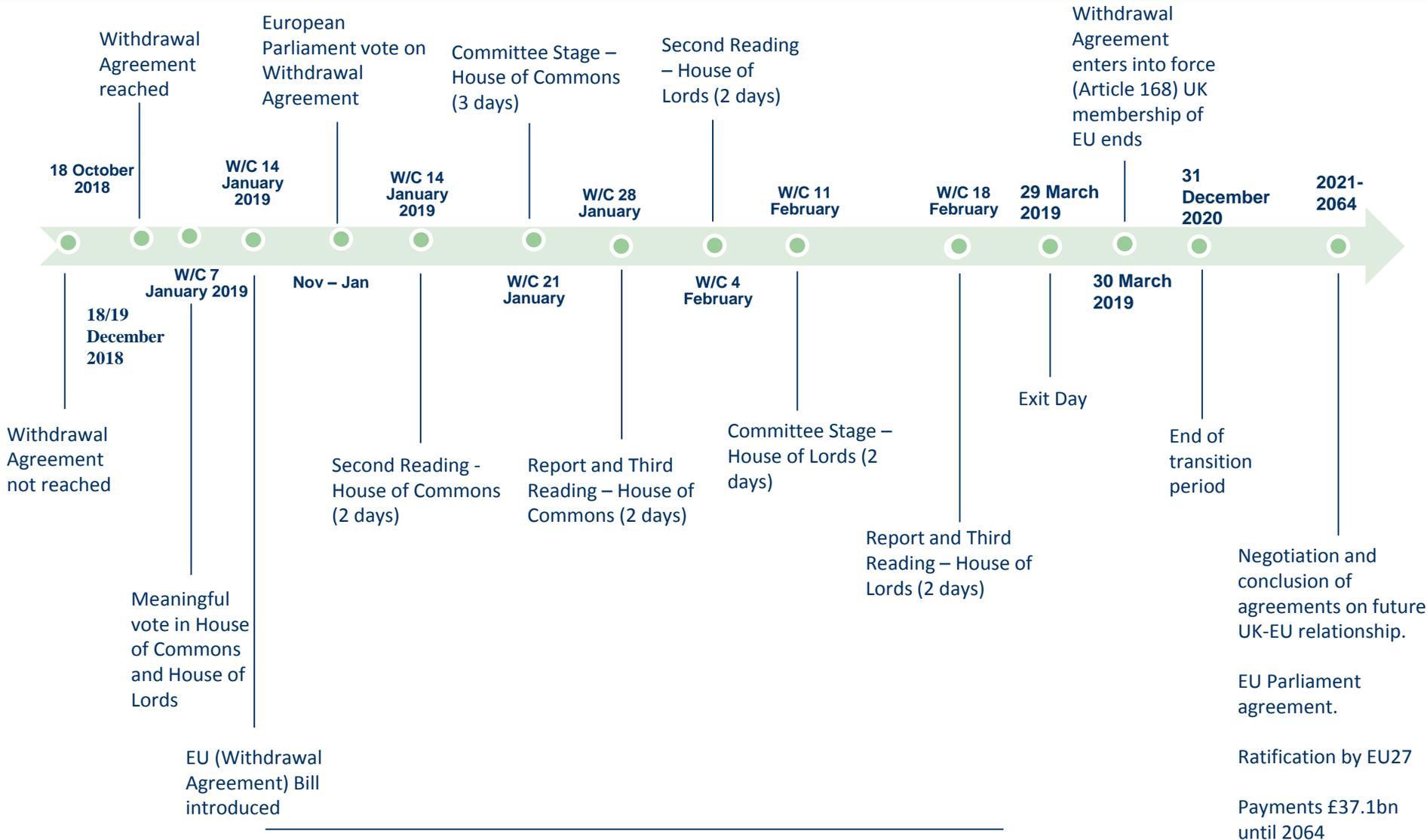
Projection 1 – October Agreement



Projection 2 – November Agreement



Projection 3 – December Agreement



Projection 4 – No deal

