

Patent invalidation and legal certainty - What can patent holders expect?

by Prof. Ann



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Abstract: Germany is one of Europe's most important patent centres: as regards patent grants and also as regards patent infringements. This may be why the German patent scene in the last two years has been looking at the success rates of nullity suits filed with the German Federal Patent Court (BPatG) – under two different aspects: In 2014, a first legal article concentrated on the problem of lack of legal certainty for patent holders and on investment risks posed by the seemingly boundless possibilities for challenging patents in nullity proceedings. The article called for these risks to be addressed more carefully, not to the least in view of Art 14 German Grundgesetz (GG), which safeguards the right to property. Another article from the same year, motivated more along the lines of innovation theory, took said success rates as a reason to fundamentally criticise patents under the provocative title “Why most patents are invalid”. This article scrutinised both, individual points within the criticism, as well as allegedly far-reaching conclusions regarding patents at large. According to industry reports, these conclusions have been affecting patent value, and they also may pose a threat to the system as such – unjustly so, as this article will show!

I. Introduction

Patents are frequently utilised across Europe, though according to application figures from the German Patent and Trademark Office (DPMA) and the European Patent Office (EPO) nowhere more so than in Germany. However, patents are of value only if valid and enforceable. Only then can patents fulfil their role to ensure exclusive access to a technical solution to a technical problem for the inventor, and only then can they justify the significant cost that the applicant needs to incur for a patent's grant, maintenance, and enforcement.

Although much debate is focused on issues of patent enforcement, the risk of patent invalidation was rarely discussed; until recently. This risk, however, is real, because anyone can file a nullity action, even once the opposition period has expired. Invalidation action is possible even after the opposition period before the patent office has expired and it is even possible for various nullity plaintiffs to lodge identical nullity actions against the same patent, theoretically until one is successful. The present article discusses the success rates of nullity suits and the conclusions that may be drawn.

II. Patent value: nullity action and systemic hygiene

In any free market economy, patent protection must comply with quality requirements. Hence, proceedings before patent offices and patent courts must aim to only grant patents satisfying all substantive patentability requirements, i. e. novelty, inventive step, and industrial applicability. Only then does a claim to a German or to a European patent exist.³ If patentability was incorrectly assumed in grant or opposition proceedings, a patent can be revoked in cases of e. g. non-patentable subject matter, insufficient disclosure, usurpation of a third-party invention and inadmissible extension of scope of protection. Given that grounds for revocation are not always identifiable in opposition proceedings, there will always be a number of patents that will be granted while not fulfilling the substantive patentability requirements.

Regardless of any systemic hygiene, which the possibility of suing for patent nullity does guarantee, the interminable admissibility of this opportunity for challenging patents comes at the expense of legal certainty. Patent holders are placed at a disadvantage affecting their incentives to innovate, and for SMEs faced with competitors with sufficient financial means to use nullity actions to raise litigations costs this can be a problem. Yet another problem arises in light of the fact that the classroom example of cases based on novelty-destroying documents undiscovered by the patent examiner is the exception rather than the rule. More frequently, such actions are based on the assessment of patent documents by examiners, raising the question of examination standards with

regard to the ‘person skilled in the art’, novelty and inventive step. Patent court judges are particularly disadvantaged in this respect, not only by routine, but also by the convenience of hindsight, which makes them tend to - in retrospect - underestimate the merit of any given invention.⁴

III. System critique: success rates of nullity actions

In Germany, particular problems arise from the system of bifurcation, i.e. different courts having jurisdiction over validity and infringement, introduced by the first German Patent Act 1877. Bifurcation was not prompted by quality concerns, but rather by a need to separate administrative actions for annulment from property rights disputes such as patent infringement. Though plausible at the time, bifurcation is causing considerable problems today, in particular taking into account the significance divergence in duration of litigation for validity on the one hand and infringement on the other.

Thus infringement courts face what has been called a *litigation dilemma*: validity being under the exclusive jurisdiction of the Federal Patent Court (BPatG), they must respect patents in force, meaning that their decisions may be based on patents subsequently invalidated by the BPatG. On the other hand, infringement courts cannot overstep their jurisdiction by venturing to far into validity issues, thus being ill at ease with the provisional enforcement of their rulings and in particular with preliminary injunctive relief. Were enforced patents actually “mostly” invalidated by the BPatG, public confidence in patent validity would be jeopardised and it might indeed be preferable for infringers to rely upon a nullity action, i. e. upon the option of litigating obstructing patents out of their ways, rather than to avoid patent infringements by expensively inventing around or taking in licenses.

Hess/Müller-Stoy/Wintermeier justly criticise the success rates of validity actions before the BPatG.⁵ In a set of 143 nullity actions against software and telecommunication patents, invalidation rate was 60% for the period 2010-2013. Approximately 30% of patents were partially invalidated. And only a good 10% were upheld.⁶ The authors concluded that said invalidation rates suggest shortcomings in the system, even if annulment had only been sought for a quantitatively insignificant share of all patents.⁷ The authors’ claim that challenged patents on average are valid above average appears questionable for two reasons: firstly, nullity plaintiffs select which patents to challenge;⁸ and secondly, the basic hypothesis that enforced patents constitute a positive selection of all patents in force is more than disputable. Infringement actions are less contingent on invalidation probability than on the existence of an infringement and on the economic value of the patent in suit.

Remarkably, neither *Hess/Müller-Stoy/Wintermeier* nor *Kühnen/Claessen* criticise the two patent offices that grant patents for Germany. Based on relatively high invalidation rates (>50%) for lack

of inventive step and novelty (20%), *Hess/Müller-Stoy/Wintermeier* consider it unlikely that examiners' errors are the main cause for high invalidation rates. Only rarely, novelty-destroying prior art was overlooked by examiners. Hence the authors' conclusion that BPatG judges and patent examiners base their decisions on different legal standards. Should the BPatG indeed regard itself as the German patent system's 'ex-post catenaccio', this posed a problema not only from an economic viewpoint. It would also run counter to the patent system's purpose of incentivising technical innovation.

On the other side, *Henkel/Zischka* conclude that high patent invalidation rates before the BPatG indicate shortcomings in patent quality and thus in office grant proceedings.⁹ *Henkel/Zischka* reject BPatG's argument that only a negligible fraction of patents is submitted for review, arguing for a positive selection bias.¹⁰ Moreover, they extrapolate the empirically confirmed invalidation rate by adding all nullity suits eventually settled, claiming that these settlements occurred only, because, if ruled upon, these patents would have been invalidated.

Unlike *Hess/Müller-Stoy/Wintermeier*, they assume that invalidations revealed structural weaknesses in grant proceedings, criticising patent grant procedures as a whole. Recalling *Lemley's* stating that patent offices acted "rationally ignorant" for efficiency reasons,¹¹ *Henkel/Zischka* assert that if the BPatG completely or partially invalidated patents in 70-80% of all the cases, most patents had to be invalid, totally or partially, or more spectacularly (and questionably): most patents *are* invalid.

IV. Critique of critiques: Are the critics right?

Looking back beyond 2010, average outcomes of German nullity proceedings over a large number of years prove that invalidation rates are surprisingly stable. Roughly, the outcomes of patent nullity suits can be broken down into equal thirds: complete invalidation of attacked patents in one-third of all cases, partial invalidation in another third, and dismissal of nullity action in another third. In this respect, however, it is the interpretation of the partial invalidations that is key. Here, the nullity plaintiff's success depends on whether for its holder the patent's rest still holds value.¹²

Patent professionals claim that partial invalidations are frequent, because in nullity proceedings patents are reduced to those claims that form the core of their invention. Hence, equating partial and total invalidations as a form of 'impairment' is inappropriate, because it means disregarding the fact that partially invalidated patents may also hold considerable value for their holders.¹³

Even though only a relatively small number of patents are challenged before the BPatG, most of these are enforced patents more vulnerable to invalidation. However, by no means all enforced patents are challenged. Rather, their validity remains uncontested in roughly 50% of all

infringement proceedings;¹⁴ from the perspective of the infringer, who would benefit from a patent invalidation, the validity of at least 50% of all enforced patents remains undisputed. Were the invalidation rates calculated by the critics (>70%) correct, patent nullity suits would have success rates, which should make them no-brainers for infringers; certainly compared with regular civil trials in almost every field. This most likely does mean two things: firstly, infringement defendants obviously select goals of nullity suits and they do not presume their chances of success to be around 80%. Secondly, it is by no means only strong patents that are being enforced, but those that are infringed and of value.

The BPatG largely invalidates patents for lack of inventive step. Invoked prior art primarily stems from patent documents which BPatG and nullity plaintiffs interpret differently than examiners had done during grant or opposition proceedings. Difficulties with developing authoritative examination standards for inventive step are exemplified by the “person skilled in the art” that Art 56 EPC uses as the relevant benchmark. This person comprises a cognitive and a creative component; the former describes what the person skilled in the art *can realise*, the latter what he/she *is capable of*. Obviously, there is considerable room for assessment, and the problems are equally manifest regarding nullity suits to the BPatG, in particular taking into account difficulties in the retrospective assessment of inventive step.

Diverging substantive legal standards by patent offices and courts give rise to the problem of legal certainty. *Hess/Müller-Stoy/Wintermeier* rightly stress out the connection between legal certainty and the admissibility of identical nullity suits that different plaintiffs can lodge without restrictions against the same patent;¹⁵ it is questionable whether such possibility is in harmony with the purpose of the patent system and with the legal status that the patent affords to its holder. Incentives to innovate cannot work without a minimum of legal certainty, because this is what applicants expect and can expect.

Of course, legal certainty cannot signify unconditional investment protection for applicants and the lack of any possibility of invalidation for patents which should not have been granted. Yet patent holders must be protected against a revision of justifiable patent office rulings bordering on the arbitrary for three reasons: firstly, every possibility of subsequent patent invalidation must keep in mind the purpose of the patent system: to incentivise inventive activity; secondly, the patent system must be held open for applicants who are short on capital: individual inventors as well as SMEs; and thirdly, problematic side-effects potentially triggering a loss of confidence in the reliability of office examinations must be avoided.

Even though statistics look like hard data, everyone knows their limits in the resolution of individual cases. This consideration is important because statements as that on the latent nullity of 70-80% of all patents for Germany will foreseeably be misunderstood. However, this statement too says little about any case at hand. After all, only a very small (absolute) number of nullity verdicts are handed down every year.¹⁶ Moreover, the Federal Supreme Court (BGH) patents panel is more

likely to rule in favour of right holders than the BPatG. That raises the question whether some of the BPatG's nullity senates might be too eager to invalidate patents.

VI. Remedies

Patents need a minimum of legal certainty, otherwise incentives to undertake costly inventive activity will be undermined, because individual inventors and SMEs will no longer be able to rely on the possibility to protect their inventions. It therefore is unacceptable that the 'real' patent examination is happening before the BPatG. This would make patent offices and their work dispensable and inflate costs for applicants and right holders. Examination standards must be consistent. The splitting of examination standards for inventive step so that grant examination¹⁷ would be subjected to a more stringent examination standard than nullity examination appears inexpedient only at first sight.

Rather, nullity examination by the BPatG should be rethought and diverging examination standards in nullity cases should be tackled. Such a solution would be in line with modern U.S. patent examination procedures: *ex-parte reexamination*, *post-grant review*, *inter-partes review*. Such procedures are characterised by substantial materiality thresholds. For instance, the motion for reexamination requires submission of a substantial new issue of patentability and nullity plaintiffs are estopped from raising arguments they had already put forward in previous proceedings, or could have reasonably done so. Moreover, access to nullity suits before the BPatG should take into account that the now declining opposition proceedings before the DPMA need to be revitalised: while in 2004, 841 oppositions were filed against DPMA grant rulings, that number shrunk to a mere 257 in 2014. This development is worrying; to the extent it is tactically motivated, in particular by raising litigation costs for patent holders and also insofar as it is designed to secure party control of nullity proceedings which can lead blackmail or to settlements at the expense of the public.

VII. Summary

A situation in which 'real' patent examination takes place only before the BPatG is untenable. Such disposability collides with legal certainty and consequently with the rule of law with regard to the patent system. Furthermore, such disposability reduces the value of patent office work, and is harmful for Germany as an industrial location, because R&D managers will not invest in a patent system which grants patents subject to a latent nullity rate of up to 80%. This problem is exacerbated by the German system of bifurcation: patent nullity proceedings over one instance currently usually take longer than patent infringement proceedings over two instances.

Success rates of nullity suits against German patents and for EP patents valid in Germany are indeed considerable. However, this is not new and in fact nullity suits are filed against for only about 50% of all enforced patents. Moreover, high invalidation rates could be attributable to diverging examination standards for inventive step rather than to patent quality; partial invalidation before the BGH, for instance, is reduced in favour of the patent holder in a disproportionately high proportion of cases. If conclusions for patent quality are to be drawn from nullity rates, it needs to be considered, in addition to the inherent limitations of statistics, that partial invalidations only rarely affect patent holders so badly that they surrender their remaining rights. Partial invalidation is hence something completely different from total invalidation.

Respite could be offered by a system which more strongly reincorporates patent review back into the offices' opposition proceedings. Furthermore, one could consider adopting US concepts for access to nullity proceedings, as well as more stringent estoppel arrangements for nullity plaintiffs who could have submitted grounds for revocation immediately, but for tactical reasons have done so late.

Regardless of how the BREXIT will affect the new UPC-system, the question of how patent nullity and hence patent value should be addressed, will stay with us for years to come

¹ The present article is an abbreviated version of the article '*Patent invalidation and legal certainty – What can patent holders expect?*'. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2804992 (2016).

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³ This right also constitutes an entitlement under substantive law; cf. correctly *Bremi/Stauder*, in: *Singer/Stauder*, EPÜ, 7th ed., 2016, Art 60 No. 1.

⁴ German Federal Court of Justice (BGH) Judge von Albert, who served on the court's patent senate, already in 1981 pointed to this structural danger, to which patent court judges are particularly prone, in a review of the problems that the German system of bifurcation posed in relation to the European patent system, which had been new at the time: "Nullity proceedings are to help ensure that patents which for lack of substantive patentability were granted incorrectly do not last. This, however, may not lead to this question being decided by petty argumentation." See *von Albert*, GRUR (Industrial Property and Copyright) 1981, 451, 458.

⁵ Mitt. 2014, 439.

⁶ Hess/Müller-Stoy/Wintermeier, Mitt. 2014, 439 and 441.

⁷ The BPatG explicitly addressed this criticism in its 2014 Annual Report, noting that a share of only 0.02%, i.e. 250 out of 1.25 million patents in force, were put up for review. See BPatG Annual Report 2014, 62 right-hand column.

⁸ *Kühnen/Claessen* confirm this from an infringement perspective: 'Astonishingly, the validity of allegedly infringed industrial property rights is challenged only in approximately half of all infringement proceedings'. See GRUR 2013, 592 and 594.

⁹ *Henkel/Zischka*, 'Why most patents are invalid – Extent, reasons, and potential remedies of patent invalidity', http://www.tim.wi.tum.de/fileadmin/w00bcy/www/Research/Publications/Henkel/Henkel_Zischka_2015-

12_patent_Validity.pdf, for the first time 29 September 2014, current version 16 December 2015, retrieved on 19 March 2016.

¹⁰ *Henkel/Zischka*, 1, 20.

¹¹ Rational Ignorance at the Patent Office, 95 Nw. U. L. Rev. 2001, 1495 – 1532.

¹² Kühnen/Claessen, GRUR 2013, 592 and 594.

¹³ See also *Hüttermann*, Mitt. 2016, 101.

¹⁴ *Kühnen/Claessen*, GRUR 2013, 592 and 594.

¹⁵ Kraßer/Ann, § 26 No. 244.

¹⁶ BPatG, *supra* n. 7.

¹⁷ *Henkel/Zischka*, 1, 26 sequi.