Summary: Interview of Mr. Scharen on the reform of the German Patent Act

Recently, the Federal Cabinet adopted a draft bill for the 'Second Act on the Simplification and Modernisation of Patent Law' (draft bill), which, in the meantime, has been submitted to the German Parliament to be enacted as law. Among other provisions, the draft bill includes a proposal for the introduction of an express proportionality provision limiting patent holders' right to injunctive relief under specific conditions.

Uwe Scharen, esteemed former Presiding Judge of the 10th Senate of the Federal Court of Justice that is competent for patent law, was asked by 4iP Council to share his views on the respective proposal.

1. Background and key elements of the proposal

Looking at the problems that the reform seeks to address, Mr. Scharen acknowledges that there can be –particularly few– cases, in which an injunction imposing a judicial ban with immediate effect could be considered inappropriate. Under current German law, the general legal principle of proportionality, which is also applicable to patent law, covers such cases.

Nevertheless, the draft bill proposes the introduction of an express proportionality test in the Patent Act. In support of this proposal, the draft bill lists several case examples, in which proportionality should particularly be taken into account. These examples are critically reviewed by Mr. Scharen.

First, Mr. Scharen does not agree that the risk of having to shut down entire business sectors or critical infrastructure due to infringement of a single patent concerning only a component integrated into a 'complex' product is so evident as the draft bill seems to suggest. If a licence is not available to the infringer, such risk can be mitigated by a temporary stay of the *enforcement* of a granted injunction for the time period required for shifting to an alternative technology; such 'transition-period' would also suffice, when the protected component has only minor importance for the 'complex' product, so that it can be assumed that it can be left out without any problem. In case that patents necessary for standard implementation are involved, the infringer can already claim a licence on appropriate terms, if certain reasonable rules have been followed.

Second, Mr. Scharen argues that the sole risk of being confronted –especially by non-practising entities (NPEs)– with excessive royalty claims under the threat of an injunction can hardly *per se* lead to limitations of injunctions. For this, it must be established in trial that the patent holder, indeed, applied pressure towards signing a licence on excessive terms. Mr. Scharen notes that the draft bill does not contain any verifiable data showing that such behaviours exist –let alone are common– in practice. Since there is usually a wide range of licensing claims that are reasonable, the risk that, in an individual case, the outer limits of what is reasonable are crossed, is also rather low.

Third, referring to scenarios, in which the late filing of an action for injunctive relief can render significant material and/or financial investments of the infringer in the development and manufacturing of products useless, Mr. Scharen agrees with the draft bill insofar, as that in such cases injunctions could potentially be inappropriate. However, it can be expected that a diligent company will not take up comprehensive investments and research activities prior to a careful assessment of the patent landscape. As far this takes place, Mr. Scharen expects that the aforementioned scenarios will not gain importance in practice. According to Mr. Scharen, exceptions could occur, e.g., when the patent landscape is complex, due to a very high number of patents of different patent holders that need to be taken into account, as it is the case, for instance, in the telecommunications sector.

Having said that, Mr. Scharen points out that the current proposal to introduce an express proportionality clause in the German Patent Act does not constitute only a '*legislative clarification*' of the current framework, as the draft bill claims, but goes beyond that.

In particular, Mr. Scharen criticizes the fact that the draft bill apparently allows for an exclusion of the *substantive right* to injunctive relief on proportionality grounds. According to the pathbreaking 2016 'Wärmetauscher'-ruling ('Heat-exchanger') of the Federal Court of Justice, only the immediate *enforcement* of the right to injunctive relief can, in an individual case, establish hardships for the infringer that could be disproportionate. Consequently, the substantive right of the patent holder to claim injunctive relief remains untouched, even when the *enforcement* of an injunction is deemed disproportionate. Mr. Scharen believes that this is the only appropriate solution for patent law. However, the draft bill does not reflect this understanding.

2. Need for a reform?

Mr. Scharen does not see a need for reform, especially no need for a 'clarification' of the current legal status. As recognised also by the draft bill, German law already provides the possibility to raise a defence based on proportionality considerations in infringement proceedings with prospect of success. The 'Wärmetauscher'-ruling of the Federal Court of Justice has made this particularly clear.

Furthermore, Mr. Scharen points out that the German law of civil procedure establishes the possibility to fend off the enforcement of an injunction granted by a court through security payment or deposit, if the enforcement would cause disadvantages for the defendant that cannot be compensated. This option is, however, not often used in practice.

3. Application of proportionality by German courts

According to Mr. Scharen, after the 'Wärmetauscher'-ruling a new situation emerged. This judgment constitutes a landmark decision of the German court of last instance which is taken into consideration by the District and Higher District Courts involved in patent cases and is, as a rule, used as a basis for future jurisprudence.

Mr. Scharen expects that, in the future, courts will have to deal with the application of the principles established by the 'Wärmetauscher'-ruling more often, due to the increased readiness of defendants to raise the proportionality defence even with little prospect of success. In Mr. Scharen's experience, this leads over time to the development of categories of cases, in which a disproportionate conduct of the patent holder will be assumed. By that, legal certainty is generated for all stakeholders. Thus, it is not clear to Mr. Scharen, why an express legal provision in the Patent Act is needed.

4. Permanent exclusion of injunctions and third-party interests

In Mr. Scharen's view, the draft bill primarily stipulates a temporary exclusion of the right to injunctive relief, in line with the 'Wärmetauscher'-ruling of the Federal Court of Justice. However, the wording of the draft bill also allows for a permanent exclusion of an injunction. Mr. Scharen expects that this possibility will not gain importance in practice. Although a permanent exclusion is, basically, possible also under the current framework, it is hard to find cases, in which it would be justified to oblige the patent holder to tolerate infringement of its rights for all time based on proportionality considerations.

Looking at the proposal to include third-party interests in the assessment of proportionality, Mr. Scharen highlights that this is something new to German patent law: such requirement cannot be derived from the 'Wärmetauscher'-decision and goes beyond a '*clarification*' of the current legal status quo. Patent infringement gives rise to a statutory legal relationship only between patent holder and infringer, so that only the potential hardships on the infringer can be relevant for a proportionality assessment. Mr. Scharen finds it, therefore, hard to comprehend the intention behind the proposed addition of third-party interests in the Patent Act. The examples provided by the draft bill in this respect –that is the possibility of failure to guarantee treatment of patients with vital medicines or a potential significant impact on critical infrastructures– can be adequately handled by the existing provision on compulsory licences. A permanent exclusion of the right to

injunctive relief due to third- party interests should, according to Mr. Scharen, not be made possible under any circumstances.

5. Potential impact on Germany's role as a venue for IP disputes and centre for innovation

Mr. Scharen assumes that, if the proposed amendment becomes law, the proportionality defence will be raised in a considerable number of proceedings. This can require extensive hearing of evidence, which –in turn– would extend the duration of infringement proceedings. The respective risk would be even higher, if the possibility to take third party interests into account will be included into the law. Germany will, therefore, very likely become a less attractive venue for patent holders.

Regarding Germany's role as a centre for innovation, Mr. Scharen does not expect a severe negative impact. If a limitation of the enforcement of the right to injunctive relief will occur only in special exceptional cases, patent holders will regularly still obtain an injunction, so that the interest in continuing research and patenting in Germany should not be impaired.

6. Status and potential outcome of the parliamentary debate

Mr. Scharen finds it difficult to predict whether or when the current proposals concerning injunctive relief will be adopted as a law. Since the work on the draft bill is already at an advanced stage, it can, however, be expected that a law containing an express provision on the application of proportionality considerations will be enacted. In Mr. Scharen's view, it is, possible that the proposal to take third-party interests into account will not go through.