

## Interview Uwe Scharen

### 1. What problems does the proposed introduction of an express proportionality clause in the German Patent Act seek to address? Do those problems actually exist?

According to the explanatory memorandum to the draft bill, particular focus is, apparently, placed on cases, in which the patent holder, based on the infringement of a single patent that concerns only a detail functionality of a subcomponent, can request an injunction covering a product as a whole. The draft finds that, in individual cases, this could cause high damages, even the shutdown of networks or a sales ban regarding already manufactured complex products, although the 'value' of the invention stands in no relation to these negative consequences (catchword: small invention – large damages).

The first point addresses a situation which, in fact, can be observed not only exceptionally, but rather in a considerable number of patent disputes in Germany. The risk that entire business sectors must be shut down, is, in my eyes, however, not so evident. In cases, in which a patent holder is not willing to grant a licence, such risks can be mitigated by shifting to an alternative technology available in the market; insofar, a temporary stay of a granted injunction for a limited period of time should usually have a sufficient corrective effect. When standard-essential patents, which actually need to be used, are involved, the infringer can already claim a licence on appropriate terms, if certain reasonable rules have been followed.

Furthermore, in the above cases, the patents asserted will, by no means, always have a limited inventive quality, as some seem to believe that the explanatory memorandum suggests. The degree of the inventive quality of the patent-in-suit is no decisive factor when it comes to the question of infringement, especially if the court has not ordered a stay of the infringement proceedings, in order to clarify first whether the patent is valid and worthy of protection. Thus, when the explanatory memorandum addresses the 'value' of the invention, it can actually only refer to the relation of the value of the detail functionality or component to the value of the product as a whole or the anticipated potential harm. When the component protected by the patent has only minor importance for the end-product, then it must be assumed that it can be left out without any problem. Consequently, an injunction can pose obstacles to the infringer only during the time period needed for a work-around or with respect to the sale of already manufactured end-products.

The explanatory memorandum identifies a further problem in cases, in which the patent holder does neither manufacture nor has products or subcomponents manufactured that directly compete with the product infringing the patent. In these scenarios, the concern is raised that especially non-practising entities could exploit the pressure arising from the threat of an injunction, in order to impose clearly excessive royalty claims. However, the sole risk of being confronted with such kind of claims cannot be classified as being unacceptable. For that, it will, in fact, be required that at the end of the oral procedure in the infringement proceedings it has been established that the patent holder has actually applied pressure for the conclusion of a licensing agreement on excessive terms. Whether this appears -or is even common- in practice is

something which I could not reliably assess based on my experience. In this respect, the explanatory memorandum does not contain any verifiable data. Furthermore, one should keep in mind that the question whether specific royalty claims are reasonable or not is usually difficult to answer. Most of the time, there is a wide range of claims that are reasonable. Therefore, the risk that, in an individual case, the outer limits of what is reasonable are crossed, is low. That said, it is no surprise that the explanatory memorandum does not mention any case, which could demonstrate a practice of non-practising entities to assert considerably higher licensing demands than patent holders with own manufacturing activities, which, of course, also strive to exhaust the range of possible conditions. As far as the explanatory memorandum refers to the interest of 'normal' patent holders to protect the own development and manufacturing activities, it should be pointed out that this is no factor that determines the amount of reasonable royalties; what is more, the demand to take a licence seems to be ignored in this respect.

Besides the above, the explanatory memorandum also mentions cases, where the right to injunctive relief is asserted at a point in time, in which the infringer has already significantly invested in the development and manufacturing of a product, with the consequence that an injunction could cause extraordinary damages that stand in no relation to the value of the infringed patent. This is thought to be particularly relevant when a long period of time is required for research and development. First of all, it is interesting that the explanatory memorandum -not only here, but also in other contexts- does not consider the existence of the statutory prohibition of infringement, respectively the substantive individual right for injunctive relief, as the source of the above effects, but focuses on the assertion of this right by the patent holder before court. I will come back to this point again later. The timing of the assertion of the right for injunctive relief can, indeed, play a key role in the legal assessment of the patent holder's court action. Should the patent holder have waited so long, until it can be assumed that the infringer has already made significant material and/or financial investments, which would then be rendered useless, then filing an infringement action could be considered as an unacceptable behaviour of the patent holder that could be rejected as an abusive legal action. However, it should be noted that a diligent company will not take up comprehensive investments and research activities, unless a careful review of the framework conditions, including the patent landscape has taken place before. By exercising due diligence, which is something that, actually, everyone has an interest -or even a duty- to do, the cases referred to by the explanatory memorandum will not gain importance often. Exceptions would occur in the aforementioned example of late filing of an infringement action as well as in the following scenario.

The explanatory memorandum correctly suggests, that, for instance, in the telecommunications sector, where nowadays production takes place with a high vertical integration including several component manufacturers, the need to take into account a very high number of patents of quite different patent holders is a problem for infringers. Furthermore, an injunction can be granted not only against the end-device manufacturer, e.g. a handset manufacturer, but also against every company participating in the production of the end-device. However, in my knowledge, in the last years the practice established in Germany is to assert patents only against end-device manufacturers. One reason for that could be that the component manufacturers and

suppliers are seated abroad, where end-devices are also assembled. As a result, it is not uncommon that only the company responsible for the sales of the end-devices in Germany is affected by the large number of patents that must be considered. Such companies face the risk of not having identified all relevant patents in time for avoiding infringement, even when the patent landscape is monitored and examined with the required diligence.

To sum up: Certainly, there can be -particularly few- cases, in which it could appear inappropriate that the infringement of a patent justifiably asserted before court automatically leads to a judicial ban with an immediate effect. This result is, however, not the necessary consequence of infringement under the current German legal framework. As the explanatory memorandum notes, proportionality is a general legal principle of civil law, which is also applicable with respect to patent law. I, thus, disagree with the statement contained in the explanatory memorandum that the proposed additions to the Patent Act constitute (exactly for this reason?) a 'legislative clarification'. According to my legal understanding of the current patent law, the plea that the patent holder violates the proportionality principle has no impact neither on the statutory prohibition of patent infringement nor on the patent holder's substantive claim for injunctive relief. This plea is directed only against the assertion of the right to injunctive relief before court to stop patent infringement and the attempt of the patent holder to enforce its right by that means. This is confirmed by the decision of the Federal Court of Justice in the 'Wärmetauscher' ('Heat-exchanger') case mentioned in the explanatory memorandum. The Court found that only the immediate enforcement of the patent holder's right to injunctive relief could, in an individual case, establish a hardship that is disproportionate, not justified by the exclusionary right and, therefore, in conflict with the principle of good faith. This means, that only the actions of the patent holder, aiming at and leading to the enforcement of the right to injunctive relief, can be questioned on grounds of proportionality considerations. On the other hand, the individual right of the patent holder, which is embodied particularly in the claim for injunctive relief, remains untouched, as the explanatory memorandum also acknowledges. In my view, this is the only proper way for patent law. In contrast, for instance, to property rights on goods, the exclusionary right arising from a patent is justified especially by the fact that the patent applicant made the output of its invention available to the public through the disclosure of the teachings on the technical practice. This justifies the unrestricted validity of the right to injunctive relief. Nevertheless, the wording of the draft bill ('The *claim* is excluded, if...') does not reflect this principle.

**2. Does German law currently lack sufficient means of substantive and procedural nature to consider proportionality in the context of injunctive relief? Is there a need for a reform?**

As explained in my answer to the first question, German law already provides the possibility for patent infringers to argue in court proceedings with prospect of success that an injunction imposing a cease-and-desist obligation with immediate effect can be disproportionate. The explanatory memorandum itself points out that it is, basically, common understanding among stakeholders that the current law allows for proportionality considerations to be taken into account with respect to the right to injunctive relief. As mentioned above, such proportionality elements do not affect the

substantive right arising from the patent but refer to the patent holder's attempt to enforce this right. Already today, proportionality considerations can take effect, when - in addition to filing an action for injunctive relief- the patent holder behaves in a manner, which itself is abusive and could, in turn, also render the court action abusive. This can be particularly true, in cases, in which the patent holder pursues objectives which are not connected to the trial or chooses to file an action in a moment in time, when the infringer has just started manufacturing. Furthermore, the principle of good faith that governs the entire civil law can also take effect in absence of such abusive tactics, when an undue impact on the infringer can be anticipated and it seems reasonable to expect from the patent holder to prevent such impact: this could, for example, apply, when under consideration of the interests of the patent holder infringement can be tolerated for a period of time, provided that adequate compensation for the right holder is secured.

Hence, I do not see a need for reform, especially a need for a 'clarification' of the current legal status. This is even more true against the background of the 'Wärmetauscher' ruling rendered by the Patent Law Senate of the Federal Court of Justice in mid-2016 which expressly indicates that, in individual cases, the immediate enforcement of an injunction can cause disproportionate hardships and, thus, breach the principle of good faith.

Looking at the second element of your question referring to available procedural means, 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 (so-called 'protection against enforcement'), if the enforcement would cause disadvantages for the defendant that cannot be compensated. Protection against enforcement is granted by courts involved with patent infringement proceedings only in exceptional cases. This is eventually a reason, why infringers often do not raise a respective request. Nevertheless, I do not see a need for reform in this respect neither, since -as the Federal Court of Justice has already decided- the infringer has the opportunity to plead that an injunction would lead to unreasonable hardships during the actual infringement proceedings.

**3. It has been argued that lower courts do not apply proportionality or are reluctant to do so. Do you agree with such a statement? If this were a problem, would such reform solve it or would you suggest other possibilities (such as training for District Court judges)?**

In my view, for answering this question, it makes sense to differentiate between the time prior and after the 'Wärmetauscher' ruling of the Federal Court of Justice. In my work as a judge and, currently, as an independent expert, I cannot recall a court decision rendered prior to this ruling, in which -after the case that led to the 1980 ruling in 'Heuwerbungsmachine II'- an injunction had been denied or limited, because its enforcement was considered to be disproportionate. One should, however, bear in mind that, from a procedural angle, the dismissal of an infringement action in the above sense is only thinkable, if the infringer sued can raise the defence of disproportionality against the patent holder's claim for injunctive relief and sufficiently demonstrate the grounds establishing such defence. As a rule, this did not take place. Accordingly, the

legal database ‘Juris’ identifies only three cases prior to the ‘Wärmetauscher’ ruling, in which the court had to decide about granting an ‘use-by-period’ or a ‘transition period’. In fact, the most common means used was to apply for protection against enforcement based on potential disadvantages that could not be compensated. As already mentioned, such applications were, however, usually not successful.

After the ‘Wärmetauscher’ ruling was delivered, in my view, a new situation emerged. In this decision, the Federal Court of Justice, after weighing the concrete interests of the parties against each other, dismissed the defence raised on proportionality grounds. Nevertheless, the Court expressed quite distinctly that such defence can be raised also within the framework of patent law with prospect of success. Compared to the previous practice outlined above, this judgment constitutes a landmark decision of the German court of last instance. Such a decision 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. In my eyes, every legally qualified individual that is subject to the law should do the same. I, therefore, expect that the practice will change insofar, as the defence of proportionality will -in place of or in addition to the application for protection against enforcement- become part of the actual infringement proceedings, when it appears possible, even only to a limited extent, to rely on the principles laid down by the ‘Wärmetauscher’ ruling. In my current work as an independent expert, I have already seen such cases. The legal database ‘Juris’ also contains eight cases which refer to an ‘use-by-period’ or a ‘transition period’. This means that infringement courts will have to deal with the question of whether respectively under which circumstances the enforcement of an injunction is disproportionate based on the principles established by the Federal Court of Justice. According to my experience, this leads over time to the development of categories of cases, in which an abusive or disproportionate conduct of the patent holder will be assumed. By that, legal certainty is generated for all stakeholders. Thus, I ask myself why some now think that a legal provision is needed. Since the proposed provision, given the variety of possibilities, correctly refrains from listing specific circumstances, on which it will apply, the jurisprudence will -even after the new law enters into force- anyhow have to progressively develop common principles, based on which the relevant cases will be assessed.

With regards to the question of offering advanced training for the judiciary, I can only simply say that training should always take place. In my eyes, however, no training deficit exists with respect to patent judges of the relevant District and Higher District Courts. The German Judicial Academy regularly organises conferences for patent judges, in which often members of the Patent Senate of the Federal Court of Justice participate as speakers and/or are available for discussion around recent case-law. In this way, it should be ensured that the participants coming from the District and Higher District Courts are made familiar with landmark decisions.

- 4. The Ministry’s draft bill includes the possibility of a permanent exclusion of the right to injunctive relief and the consideration of third party interests. Do these proposals introduce limitations going beyond the current status? If so, does it seem proportionate to address third party interests by a permanent exclusion of the right to injunctive relief?**

According to the explanatory memorandum, the use of the term '*to the extent*' shall clarify that a partial exclusion of the right to injunctive relief can also be possible. However, I understand the wording chosen in the draft bill '*The claim is excluded to the extent that due to the special circumstances of the individual case its assertion would lead to disproportionate hardship for the infringer or third parties which is not justified by the exclusive right*', as suggesting that the claim '*is excluded, only to the extent*' that the latter would occur. Therefore, in my view, the draft bill primarily stipulates, in terms of timing, that e.g. solely a judicial ban with immediate effect should be excluded. This was also what the Federal Court of Justice considered in the 'Wärmetauscher' ruling. The draft bill also mentions elsewhere that the proposed clarifications can lead to a '*(temporary) exclusion*' of the right to injunctive relief in individual cases. Having said that, the wording of the draft bill, admittedly, allows also for a permanent exclusion of an injunction. This possibility was, however, already given under the legal standard governing the proportionality defence, which -as already mentioned- was hardly ever applied prior to the 'Wärmetauscher' ruling. The 'Wärmetauscher' ruling did not change anything insofar, since, in accordance with the defendant's request, the Federal Court of Justice had only to decide about granting an '*use-by-period*'. Notwithstanding the above, in practice, the possibility of a permanent exclusion of the right to injunctive relief under the current framework is, in my eyes, only given in theory. It is hard to imagine a case involving a patent with a '*normal*' remaining term, in which the weighing of interests performed by the court will come out to the detriment of the patent holder to such extent that he could be obliged to accept infringement by the use of the teachings of his patent by the defendant for all time. A different approach could be justified, when the remaining term of the patent is very short, provided, however, that the facts of the case do not give rise to the assumption that the patent holder can or must reap the benefits from his intellectual property right only in this time. In this case, an exclusion of the claim for injunctive relief would usually amount only to a temporary effect. For these reasons, I think that the possibility of a permanent exclusion of injunctions, which is also covered by the wording of the draft bill, is rather theoretical. I expect that it will not gain importance in practice.

This is, on the other hand, not the case with respect to the proposal to take third party interests into account. According to the wording of the draft bill, disadvantages affecting third parties should be considered not only when they have an impact on the infringer and cause unreasonable hardship (also) for the latter; moreover, the draft stipulates without any limitation that in the future every negative impact on any random third party could lead to denying statutory patent protection granted by the right to injunctive relief. This is something new to patent law, which cannot be derived from the 'Wärmetauscher' ruling and is, thus, no '*clarification*' of the current legal status quo. Patent infringement gives rise to a statutory legal relationship only between the patent holder and the infringer, which, in turn, constitutes the basis for the proportionality assessment. Therefore, only the costs and disadvantages, which the infringer will have to bear, are relevant for the weighing of the parties' interests. Taking third party interests without any limitation into account goes far beyond that and, in my eyes, has nothing to do with the aspect of proportionality. The explanatory memorandum argues that sole purpose is to respect constitutional rights of third parties. This is, however, not reflected in the proposed wording. The subsequent examples, that is the possibility of failure to guarantee treatment of patients with vital

products of the infringer or a potential significant impact on critical infrastructures, can hardly serve as justification for excluding the right to injunctive relief or its enforcement based on the protection of constitutional rights of third parties. What is more, there is nothing there to demonstrate that the above cases cannot be adequately handled by the existing statutory provision on compulsory licences. On the contrary, the legal commentary 'Benkard' identifies a number of decisions of the highest courts, which show that compulsory licences can ensure both the supply of the population with medicine and the protection of socio-political and economic issues serving public interest, including the protection of constitutional rights. The explanatory memorandum further argues that a limitation of the right to injunctive relief can, depending on the specific form chosen in each individual case, have a less intensive impact than a compulsory licence. Especially an 'use-by-period' or a 'transition period' limited in time could allow for more differentiated decisions concerning third party interests. In this respect, I can only highlight the following: The existing rule on compulsory licences expressly provides the possibility of granting only a limited licence which can be made subject to conditions. The scope and the term of the use authorized by a compulsory licence must expressly be limited based on the purpose served. As a conclusion, please permit me to say that I cannot comprehend the intention to include third party interests. Moreover, looking at the aforementioned reasoning of the draft, according to which the suggested exclusion of injunctions is compared against a compulsory licence, a permanent exclusion of the right to injunctive relief or its enforcement due to third party interests should under no circumstances be possible.

**5. Is there a danger that Germany's leading role as venue for the protection of intellectual property rights and innovation will be called into question by the proposed amendments? Which impact can be expected by the proposed reform, also with respect to the practice of the UPC in the future?**

Compared to other jurisdictions, the practice of the so-called bifurcation system in Germany so far had to a certain extent the considerable advantage of a fast clarification of the infringement question, from which all parties involved (claimants, defendants, infringement court) benefit. As a rule, the infringement courts could focus on this question. A lengthy hearing of evidence was often not required, because the composition of the attacked embodiment was not disputed and only a legal question needed to be answered. In my view, this has already changed after the 'Wärmetauscher' ruling. Ever since, one should expect that, if the court finds that the patent is infringed, the question whether the corresponding legal consequences are proportionate will often be discussed in addition. As the explanatory memorandums suggests, a finding that the patent holder's request for injunctive relief is abusive or in violation of the principle of good faith can occur only in very limited exceptional cases. Nevertheless, it can be assumed, as already mentioned, that the proportionality defence will be raised in a considerable number of proceedings, not least due to the professional diligence, to which attorneys necessarily involved in infringement proceedings are committed towards their clients. In my opinion, this can and will make an extensive hearing of evidence necessary. On the one hand, the defendant will have to comprehensively plead the relevant facts, in order to allow the court to perform the required weighing of interests. On the other hand, the claimant will usually be

permitted to contest these facts by pleading that it has no knowledge of the underlying circumstances. Such hearing of evidence does not only prolong the specific proceedings, but has also an impact on the time frame, in which the court will decide other pending infringement cases. Germany will, therefore, very likely become a less attractive venue for patent holders, which, as a rule, can choose the competent court. To the extent that the draft bill takes over the 'Wärmetauscher' ruling, this will not be linked only to the reform proposals but will rather be the consequence of the fact that the Federal Court of Justice as the highest instance quite distinctly clarified that the proportionality defence can be raised also within the framework of patent law with prospect of success. However, if the possibility to take third party interests into account will be included into the law, there is reason to fear that the need for extensive pleadings and fact finding as well as the difficulties attached to that will by far exceed the scenario explained above.

Regarding Germany's role as a centre for innovation, I do not actually see severe consequences. Patent holders will have to deal with the proportionality defence more often. Since 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, when their patents are infringed. Consequently, the interest in continuing research and patenting the results should not be impaired.

With regard to the potential impact of the proposed reform on the future practice of the UPC, I do not have a reliable opinion. The task to develop a common practice in this respect will lie in the hands of the future judges of this court, which will come from various countries with different legal traditions. How these judges will decide, is something that I am not in a position to know.

## **6. How likely is it that the proposals become law and, if so, when?**

It is also difficult to predict whether 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 my view, it is, nevertheless, possible that the proposal to take third party interests into account will not come through. When the legislative procedure will be concluded with either negative or positive outcome can hardly be reliably predicted, especially in times of the pandemic. The Act for Strengthening Fair Competition was passed more than a year after the Federal government presented its draft bill.

All views expressed reflect solely the personal views of the author.

Duesseldorf, 19 November 2020