

# Recent German Court Decisions and Legislation shape the future of Patent Litigation

**Dr. Dennis Kretschmann of Boehmert & Boehmert discusses the prospect of a unitary European patent and the reform of the German Patent Act.**

**T**he German Federal Constitutional Court has just rejected two urgent applications directed against the creation of the European Unified Patent Court. If political support for the project continues and no further unexpected hurdles arise, the unitary patent could thus be – finally! – on the home straight and, according to optimistic estimates, could enter into force within the next 12 to 18 months. At the same time, legislation is overhauling the rules of national German patent litigation. The revised German Patent Act provides for a new and controversially discussed proportionality exception for injunctive relief as well as measures to accelerate patent nullity proceedings and to better align them with patent infringement proceedings.



Dr. Dennis Kretschmann

## The unitary patent on the home straight?

The European patent system so far only provides for a centralized grant procedure, resulting in a bundle of national patents. This may be about to change, and in the future the European Patent Office might also grant a genuine European patent with unitary effect in all participating member states (currently all EU members with the exception of Spain, Poland, and Croatia). These patents shall in future be enforceable against patent infringers before a Unified Patent Court (UPC) with effect for all participating member states.

The first ideas for such a unitary patent already existed when the European Patent Office was established in the 1970s. Efforts have intensified over the past 15 years, and since 2013 the relevant agreements to implement this idea have been in place and have already been



ratified by numerous EU member states. However, the German ratification of the agreement on the UPC, which is essential for its entry into force, was held up twice by constitutional complaints, first in 2017 and then again in 2020. These complaints allege violations of the rule of law, of the fundamental right to effective judicial protection, as well as violations of EU law. The plaintiffs complained, in particular, that the judges at the Unified Patent Court are only appointed for a limited time period, so that judicial independence is not sufficiently guaranteed.

The Constitutional Court dismissed these complaints in June 2021. In the opinion of the Court, the plaintiffs were not able to prove that the organizational structure of the Unified Patent Court violated the rule of law, and to what extent this impaired the principle of democracy. After a four-year interval, the unitary patent has thus cleared a decisive hurdle.

However, some further obstacles on the way to realization remain. As a consequence of Brexit, the United Kingdom already withdrew from the UPC project last year. This poses organizational and legal challenges, because London is explicitly designated in the agreements as one of the three seats of the Unified Patent Court (alongside Paris and Munich). Germany has proposed a division of jurisdiction between Paris and Munich. In the Explanatory Memorandum, the German Federal Government argued that the withdrawal of the United Kingdom would not prevent the implementation of the Unitary Patent. The provisions of the agreements were to be interpreted in such a way that the withdrawal of a member state, which could not be foreseen by anyone, did not prevent the

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entry into force for the remaining participants. In addition, the agreements were to be interpreted in such a way that, in the event of the London seat ceasing to exist, its responsibilities could be taken over by Paris and Munich, at least on a transitional basis. France, on the other hand, would prefer to consolidate in Paris. Several other countries have also signaled their interest in taking over the London seat. Italy, for example, has brought Milan into play and has pushed for a corresponding revision of the agreements. Even though the political will to move ahead apparently remains strong, we might still see some heated discussions on the details of the implementation.

Moreover, preparations for the establishment of the Unified Patent Court and the selection of judges have come to a standstill due to the Brexit and the German constitutional complaints. This work now needs to resume as soon as possible.

Despite the remaining obstacles, optimistic voices believe that the unitary patent could become a reality within the next 12 to 18 months - a manageable timeframe given the 50 years of preparations.

If the unitary patent system finally comes into existence sometime in 2022 or 2023, patent owners will face tough decisions if and how to use it.

After the system will have started to operate, unitary protection can be requested within one month after grant of a European patent, without an extra fee. But you should be aware that the UPC system not only affects newly granted European patents, but all existing European (bundle) patents in countries that have ratified the UPC Agreement.

By default, they will all be subject to the jurisdiction of the UPC. There will be a transitional period of at least seven years (possibly extended by another seven years) during which patent owners can opt out of the new system, but this requires an active filing of an opt-out request. Patent owners will be able to file their opt-out requests in a “sunrise period” even before the UPC Agreement comes into force, to avoid being trapped in the new system by commencing litigation.

Should you request unitary protection? Should you opt out your existing patents? It's a tough decision that depends on many factors, including the costs of validating and maintaining the unitary patent (moderate) and the costs of litigating patents before the UPC (probably also moderate), but also your faith in a completely new court system without any case law to rely on. Many big filers have vowed to make use of the new system, but may decide to opt out their crown jewel patents, at least for the start.

## Résumé

**Dr. Dennis Kretschmann** focuses on the development and management of patent portfolios in the areas of physics, optics, electrical engineering, IT, and software. He represents clients in examination proceedings before German and international patent offices. Dennis Kretschmann also has wide expertise in patent litigation matters. He regularly conducts patent infringement and nullity proceedings before the German courts, and often coordinates cross-border infringement cases. In addition, he provides counsel on technology transfer, licensing agreements, and employee invention law.

Dennis Kretschmann has worked for BOEHMERT & BOEHMERT since 2007. Following his training in industrial property law, he was admitted as German patent attorney in 2010. He has been an admitted representative before the European Patent Office and before the EU Intellectual Property Office since 2011. In 2014, he was appointed adjunct professor for intellectual property law at the National Taiwan University of Science and Technology, Taiwan's leading technical university.





### Hardship exceptions for injunctive relief and faster nullity proceedings - the reform of the German Patent Act enters into force

While Europe is preparing for the unitary patent, Germany is currently overhauling its national patent litigation system, in an attempt to cure some perceived imbalances.

Injunctive relief is the sharpest sword in German patent infringement proceedings. If an infringement court has found a patent infringement, it not only orders the patent infringer to pay damages for past infringing acts, but also determines that the infringing product must be removed from the market and that the infringing process may no longer be carried out.

This mandatory or quasi-automatic injunctive relief has come under increased criticism by parts of the industry. In particular, the telecommunications industry and the automotive industry with their suppliers see a risk of abuse when the patent-infringing product is only a small and subordinate component of a complex overall product, for example a mobile phone chip installed in a car, but the injunctive relief ultimately affects the overall product. In these constellations, the threat

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of injunctive relief means that the patent proprietor often has to grudgingly accept excessively high license fees in order to avoid a production stoppage and the associated enormous costs.

The revised Patent Act now explicitly provides for a proportionality test for injunctive relief in Sec. 139 (1):

“The claim for injunctive relief is excluded to the extent that the claim would lead to disproportionate hardship for the infringer or third parties not justified by the exclusive right, due to the special circumstances of the individual case and in accordance with the principle of good faith. In this case, the infringed party shall be granted appropriate compensation in money. The claim for damages pursuant to paragraph 2 shall remain unaffected.”

The Utility Model Act was amended correspondingly. For the first time, the amendment expressly provides for the possibility of an exclusion of the injunctive relief if this would lead to unjustified hardship for the infringer himself, or for third parties. In such a case, the infringer could, for example, be granted a conversion period or sell-off period by the court, which would allow him to continue to market the patent-infringing product, at least

temporarily. In extreme cases, the injunctive relief could even be permanently excluded.

Most commentators, however, expect the infringement courts to use the new rule with extreme restraint and to limit it to special cases of hardship. Voices from the judiciary also point out that the new rule merely explicitly codifies in the Patent Act what they were already able to rule anyway by applying the case law of the Federal Court of Justice. In its "Wärmetauscher" ("heat exchanger") decision (case ref BGH X ZR 114/13), the Federal Court of Justice already held in May 2016 that the patent infringer may be granted a grace period in exceptional cases. The Federal Government's explanatory memorandum also emphasizes the exceptional nature of the hardship provision. In this respect, the decision-making practice of the infringement courts may not change much at all. However, the exception will presumably be invoked by the defendants more frequently in the future than in the past.

How the additional monetary compensation provided for in the amendment to Sec. 139 (1) will be structured remains to be seen in practice. In particular, it is still unclear whether this compensation is higher than the claim for damages to which the patent proprietor is entitled anyway.

Another significant and much less controversial reform concerns the streamlining of the patent nullity proceedings in order to better align them with the patent infringement proceedings.

In German patent infringement proceedings, the alleged infringer can only defend himself by claiming that he does not infringe the patent, for example, because his product differs from the patented solution or because he is entitled to use the invention. However, if he wants to claim that the patent was wrongly granted, for example that it is not novel or obvious in view of the prior art, he must attack the patent in separate nullity proceedings before the Federal Patent Court. This is usually called bifurcation or separation.

Due to the nature of the nullity proceedings, they usually already start with a considerable time delay compared to the infringement proceedings, and then even progress much more slowly. As a result, the alleged infringer often faces the unfortunate situation that the infringement court has already found a patent infringement before the Federal Patent Court decides on the validity of the patent many months later. Even the preliminary opinion of the Federal Patent Court, which the legislator had introduced with a previous reform in 2009, often comes too late to have an impact on the infringement proceedings. In the meantime, under the pressure of the threatened injunctive relief, the patent infringer may already have felt

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compelled to agree with the patent proprietor on a high royalty payment, even though the patent would ultimately have turned out not to be legally valid.

In order to remedy this deficiency (sometimes known as the "injunction gap"), in the future the patent proprietor must submit his defense arguments against the nullity action already within two, in exceptional cases at the latest three months after service of the nullity action, and the Federal Patent Court should prepare its preliminary opinion at the latest six months after service of the nullity action. In typical case constellations, these deadlines should result in the infringement court having the preliminary opinion of the Federal Patent Court at hand before its decision on the patent infringement. The infringement court could then suspend its proceedings on the basis of the preliminary opinion, until the final decision in the nullity proceedings.

This approach is promising and could synchronize the patent nullity proceedings with the patent infringement proceedings much better than before. However, its success essentially presupposes that the Federal Patent Court will be in a position to issue its preliminary opinions quickly and in a reliable quality, and that the speed-up at the initial phase of the nullity proceedings will translate into a shorter time to final judgment. This might become the acid test for the new system.

*I would like to give thanks to my co-author Dr. Michael Rüberg, Partner at Boehmert & Boehmert.*

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