

# IP Report

## Patent Law



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### The German parliament adopts government bill for a Second Act concerning the Simplification and Modernization of German Patent Law.

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**On June 10, 2021, the German parliament adopted the version of the government bill for a Second Act concerning the Simplification and Modernization of German Patent Law (parliamentary paper 19/25821) as amended by the Committee of Legal Affairs and Consumer Protection (parliamentary paper 19/30498; “Patent Law Modernization Act” below). The Patent Law Modernization Act expressly supplements claims for injunctive relief under Patent and Utility Model Law with the possibility of taking into account proportionality considerations, in which third parties’ interests are to be included as well. Additionally, in order to better synchronize infringement proceedings before German civil courts with invalidity proceedings before the German Federal Patent Court, proceedings before the German Federal Patent Court are to be accelerated. Moreover, individual provisions of the German Act on the Protection of Trade Secrets are applied, mutatis mutandis, to patent, utility model and semiconductor protection litigation.**

#### 1. Proportionality of claims for injunctive relief

In its “*Wärmetauscher*” decision (German Federal Court of Justice, judgment dated May 10, 2016 – X ZR 114/13, GRUR 2016, 1031), the German Federal Court of Justice explained that the immediate enforcement of

a claim for injunctive relief under Sec. 139(1) German Patent Act (PatG) may be disproportionate where such enforcement constitutes hardship for the infringer which cannot be justified by the exclusive right due to the particular circumstances of the individual case, taking the interest of the patentee vis-à-vis the infringer into account and, thus, would constitute a breach of good faith.

On the occasion of this decision, the German government undertook a clarifying codification of the proportionality examination in the context of a claim for injunctive relief. For this purpose, the German Patent Law Modernization Act adds the following sentences to Sec. 139(1) German Patent Act.

*“The claim is excluded insofar as asserting such a claim would cause disproportionate hardship for the infringer or third parties not justified by the exclusive right taking into account the particular circumstances of the individual case and the requirements of good faith. In such cases, the infringed party shall be granted adequate monetary compensation. This shall not affect the claim for damages under paragraph 2.”*

While the part of the draft bill of the Federal Ministry of Justice and Consumer Protection for a Second Act on the Simplification and Modernization German Patent Law (“*draft bill*” below) amending Sec. 139(1) German Patent Act still was closer to the wording of the “*Wärmetauscher*” decision and argued that the enforcement of a claim for injunctive relief being disproportionate, the Patent



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Law Modernization Act is based on the circumstance that the assertion is disproportionate — just as the ministerial draft bill of the Federal Ministry of Justice and Consumer Protection for a Second Act on the Simplification and Modernization of Patent Law (“*ministerial draft bill*” below) had.

The grounds for the bill of the German government for a Second Act on the Simplification and Modernization of German Patent Law (“*government bill*” below) still mentions a “*legislative clarification*” and emphasizes that the legal framework of German law had already allowed for an examination of proportionality of claims for injunctive relief in case of patent infringement even before the Patent Law Modernization Act became effective; however, the government bill explains, the clarification is appropriate as the courts of lower instances have been “*very reluctant*” to consider these corrective means so far.

The grounds for the government bill further emphasize that the application of the proportionality principle must not have the effect of devaluing patent law, as a claim for injunctive relief still needs to be a powerful tool and, as such, is indispensable to German industry for enforcing patents. Consequently, as laid down in the case law of the German Federal Court of Justice, limiting claims for injunctive relief has to be limited to exceptional cases because, as a rule, a claim for injunctive relief constitutes the corrective countermeasure in case of patent infringements. Thus, the patentee usually does not have to demonstrate that the claim is proportionate. Rather, the infringer bears the burden of proof and has to demonstrate a disproportionality of the assertion; any doubts are to their detriment. The government bill states that the amendment

to Sec. 139(1) German Patent Act serves to clarify that such a case warrants an assessment of the overall situation of the individual case and a careful consideration of all circumstances, even taking into account the requirement of good faith and the patentee’s interests in enforcing their claim for injunctive relief - which, in general, prevails.

The wording of the German Patent Law Modernization Act deliberately refrains from listing any criteria or examples governing disproportionality. Interpreting the standard of proportionality and devising criteria and examples governing disproportionality is to remain the responsibility of the courts of lower instance. The grounds of the government bill do list examples of aspects which may need to be assessed in the context of examining each case individually and may be helpful in practice. Apart from the patentee’s interest in the claim for injunctive relief and the economic impact of the latter, these aspects include the complexity of the attacked product as well as subjective elements. Additionally, in deviation from the draft bill, the consideration of third-party interests was expressly introduced into the wording of Sec. 139(1) German Patent Act by means of the German Patent Law Modernization Act — as had already been done by way of the ministerial draft bill.

The grounds state that, as an exception, the question of whether the patentee itself manufactures the products or components which directly compete with the product infringing the patent, or whether the patentee solely aims to monetarize the patent, which usually applies to patent exploitation companies, may be relevant for the overall assessment of all circumstances. What can also be included in the overall assessment is the question

whether the patentee demands clearly excessive royalties which are to be enforced by means of a claim for injunctive relief in breach of good faith.

Regarding complex products, the grounds for the government bill emphasize that disproportionality always requires economic effects on the entire business operations. Where it is only a dependent element of a component for a complex product as a whole, with this dependent element not being essential for functioning, e.g. special accessories, there usually are no disproportionate economic effects on the entire business operations. If a modification of the product involves considerable time and expense, for example where statutory or regulatory approval provisions are to be observed, such that the consequences of the injunction are entirely disproportionate to the value of the patent, this may need to be considered in favor of the infringer.

Even though the claim for injunctive relief itself does not require any culpability, considering even subjective elements, particularly the manner and extent of the infringer's culpability, in the context of examining disproportionality is to be a possibility, according to the grounds of the government bill. For example, the question of whether or not the infringer has taken any possible and reasonable precautionary measures to prevent patent infringement (e.g. a Freedom to Operate analysis) may be significant in this context. In addition, the question of whether the infringer has sufficiently endeavored to conclude a license agreement can also be relevant. Conduct in breach of good faith on the part of the patentee can also play a role, for example where the patentee deliberately waited until the infringer made

considerable investments, before asserting its claim for injunctive relief, even though asserting the claim earlier would have been possible. In case of an intentional or grossly negligent patent infringement, the infringer shall usually be denied the invocation of a disproportionality defense.

Further, interests of third parties explicitly are to be considered when assessing the question of whether a claim for injunctive relief should be limited as an exception due to proportionality considerations. According to the grounds for the government bill, a consideration of third-party interests does not undermine the stipulations regarding compulsory licenses under Sec. 24 German Patent Act. The grounds state that, while Sec. 24 German Patent Act grants a right of use, the adopted clarification of Sec. 139(1) German Patent Act can only (temporarily) exclude a claim for injunctive relief in individual cases. Hence, depending on the arrangement in the individual case, the limitation of a claim for injunctive relief may have a less intense effect than a compulsory license and, thus, facilitate a differentiated decision regarding the consideration of third-party interests, particularly by way of time limits for using up or modifying infringing products.

In this context, however, what needs to be taken into consideration is that the mere impairment of third-party interests is not sufficient to exclude a claim for injunctive relief, since even (indirect) disadvantages for third parties usually are a consequence of orders for injunctive relief which, in general, are to be accepted in case of a patent infringement. Hence, a limitation of a claim for injunctive relief may only be considered in cases where the impairment of third-party fundamental rights clearly

constitutes such hardship for them that - as an exception - it prevails over the unlimited recognition of the patentee's exclusive right and interests. Examples of relevant cases which the grounds mention include compromising patient care with vital products of the infringer, or a considerable impairment of significant infrastructure.

The German Patent Law Modernization Act deliberately refrains from listing specific legal consequences for particular circumstances of individual cases. The grounds explain that the wording “*insofar as*“ in the statute clarifies that the possibility of a partial exclusion of a claim for injunctive relief exists, e.g. the grant of a time limit for modification within which a non-infringing alternative has to be developed, or the grant of a time limit for using up the product within which infringing products on stock may still be sold on. However, the grounds clarify that even a more long-term or permanent exclusion of a claim for injunctive relief is a conceivable legal consequence. If, as an exception, a claim for injunctive relief is (partially) excluded for reasons of disproportionality, the court has to grant adequate monetary compensation to the patentee, obviously in the amount of appropriate royalties. Any potential claims for damages remain unaffected.

The Committee for Legal Affairs and Consumer Protection introduced an explicit reference to good-faith requirements in its recommended draft of the government bill (“*recommended draft*” below) in order to clarify that the evaluation of whether or not unjustified hardship is at hand - which excludes any claim for injunctive relief - has to include weighing the overall situation, including the justified interests of the pat-

entee. Additionally, the patentee's claim for compensation from the infringer is compulsory for cases in which a claim for injunctive relief is limited as an exception.

Moreover, the government bill also added a corresponding proportionality proviso to Sec. 24(1) German Utility Models Act (GebrMG). The reason which the government bill gives for this addition is that there is no factual reason for treating the related IP rights unequally and said addition prevents a circumvention of the considerations regarding revised Sec. 139(1) 3rd sentence German Patent Act by resorting to German Utility Models Law.

## **2. Acceleration of invalidity proceedings before the German Federal Patent Court**

The second aspect on which the German Patent Law Modernization Act focusses is the “*injunction gap*” - a gap caused by the time-wise bifurcation and practical circumstances which separate the German patent system into the assessment of infringement matters by civil courts and the assessment of legal validity by the German Federal Patent Court. For this purpose, the provisions regarding the qualified notification in Sec. 83(1) German Patent Act are amended as follows:

*“Said notification is to take place six months as of service of the complaint. If a patent litigation matter is pending, the notification also is to be conveyed to the other court ex officio. The Patent Court may set a deadline within which the parties may make a conclusive written statement before the notification is prepared according to sentence 1. If the Patent Court does not set any*

*deadline, the notification must not take place before the time limit pursuant to Sec. 83(3), 2nd and 3rd sentence expires. Statements by the parties which are received after the time limit has expired do not need to be taken into consideration for the notification by the Patent Court.”*

In the future, the qualified notification pursuant to Sec. 83 German Patent Act, by means of which the German Federal Patent Court communicates its preliminary assessment of the legal validity of the patent-in-suit, already is to be issued within six months as of service of the nullity complaint. If patent litigation proceedings regarding the patent-in-suit are pending, the qualified notification additionally is to be conveyed to the infringement court *ex officio*. Additionally, the German Federal Patent Court is given permission to set another deadline for a concluding statement by the parties in preparation of the qualified notification, and to leave any submissions received after the deadline expired unconsidered. The parties' right of submitting further statements and evidence after the qualified notification remains unchanged.

According to the grounds for the German Patent Law Modernization Act, the amendment to Sec. 83 German Patent Act aims to facilitate the use of qualified notifications in infringement proceedings before Germany's civil courts and better synchronize parallel infringement and invalidity proceedings, taking place before different courts because of the German principle of bifurcation: German civil courts decide on the infringement of patents-in-suit, while the German Federal Patent Court assesses their legal validity. However, the duration of the two proceedings often differs quite

significantly, often by more than one to two years, meaning that the qualified notification failed, *de lege lata*, to fully serve its purpose in practice thus far. First-instance infringement proceedings are often concluded within a year, whereas invalidity proceedings before the German Federal patent court take more than two, or sometimes even three, years on average, their duration showing an upward trend. This means that the qualified notification, which usually is issued approx. four to six months prior to the oral hearing in invalidity proceedings, was often issued only after the first-instance infringement proceedings, had been concluded. Thus, depending on the outcome of the proceedings, plaintiffs were often already able to preliminarily enforce an order for injunctive relief awarded to them in first-instance infringement proceedings without any notification regarding the validity of the patent-in-suit having been issued by the German Federal Patent Court sitting, *inter alia*, with judges with a technical background. The supplement to Sec. 83(1) German Patent Act intends to do justice to this circumstance: Now, as a rule, the first-instance infringement court is to receive a relevant notification of the German Federal Patent Court before the oral hearing and may take said notification into account when deciding on the question of a stay of the infringement proceedings.

To achieve this objective, the rules of procedure of Secs. 81 and 82 German Patent Act are also amended in order to streamline the proceedings before the German Federal Patent Court between the service of the nullity complaint and the qualified notification. To this end, Sec. 82(1) German Patent Act clarifies that nullity complaints are to be served “*immediately*”.

In Sec. 82(3) German Patent Act, a statutory time limit for the statement of grounds of objection against the nullity complaint is introduced, namely two months after the nullity complaint was served; said time limit may be extended by up to one month only for substantial grounds. Further, according to Sec. 82(4) German Patent Act, the Presiding Judge is to schedule an oral hearing as early as possible. Additionally, under Sec. 81(5) German Patent Act, the docket number of any infringement proceedings relating to the patent-in-suit as well as its value in dispute are to be indicated on the nullity complaint in the future. A corresponding obligation of the defendant is introduced by Sec. 81(5) 1st sentence German Patent Act.

The ministerial draft had included a provision to abolish the subsidiarity of the nullity proceedings with respect to the opposition proceedings under Sec. 81(2) German Patent Act in case of pending infringement; said provision was not implemented in the German Patent Law Modernization Act. The Committee for Legal Affairs and Consumer Protection ultimately refrained from it in its recommended draft, stating that a number of fundamental questions were still unanswered in this context, particularly regarding the relation of potentially diverging decisions in the opposition proceedings before the German Patent and Trademark Office on the one hand and the nullity proceedings before the German Federal Patent Court on the other hand. However, the Committee demanded that the German government examine the subsidiarity of nullity proceedings with respect to opposition proceedings as stipulated under Sec. 81(2) German Patent Act and present a proposal for a corresponding amendment to said standard,

should said examination show that action is required on the part of legislative authorities.

### **3. The protection of secrets in patent, utility model, and semiconductor protection litigation**

Another focus of the German Patent Law Modernization Act is the protection of trade secrets during patent infringement proceedings by applying certain rules of the German Act on the Protection of Trade Secrets (GeschGehG). For this purpose, a provision with the following wording is introduced into Sec. 145a German Patent Act:

*“In patent litigation proceedings - with the exception of independent proceedings for gathering evidence - and in proceedings for a compulsory license pursuant to Sec. 81(1) 1st sentence, Secs. 16 through 20 of the German Act on the Protection of Trade Secrets as of April 18, 2019 (Federal Law Gazette I p. 466) are applicable mutatis mutandis. The term information in dispute within the meaning of Sec. 16(1) of the German Act on the Protection of Trade Secrets means all and any information introduced into the proceedings by the plaintiff or the defendant.”*

In patent litigation and proceedings for a compulsory license, the disclosure of information that constitutes trade secrets may also be necessary for the purpose of justifying claims or for defense purposes. In order to balance the conflicting objectives of protecting secrets and effective assertion and/or defense of rights, an appropriate application of the exceptional procedural protective measures pursuant to Secs. 16 to 20 German Act on the Protection of Trade Secrets is introduced as a possibility:



In patent litigation and proceedings for a compulsory license, trade secrets also need to be treated confidentially by the parties to the proceedings and they generally must not be used or disclosed beyond the court proceedings. Additionally, the court obtains the possibility of limiting access to certain documents or parts of the oral hearing to a narrow circle of persons upon request. Independent proceedings for gathering evidence are excluded from said reference.

The second sentence of the recommended draft adds the clarifying comment that the term “*information in dispute*” is not to be understood strictly in accordance with the concept of the matter in dispute under civil procedural rules, but includes all information introduced into the proceedings by the plaintiff and the defendant.

Analogous rules are also introduced into Sec. 26a German Utility Models Act and Sec. 11(3) German Semiconductor Protection Act. In contrast to Sec. 145a German Patent Act and Sec. 26a German Utility Models Act, Sec. 11(3) German Semiconductor Protection Act does not include any clarification regarding the term “*information in dispute*”, according to the unofficial version of the recommended draft. The unofficial recommended draft does not provide any reason why.

#### 4. Comments

By further referring to the amendment to the provision on claims for injunctive relief in Sec. 139(1) German Patent Act as a “*legislative clarification*”, the legislative authorities emphasize that large parts of the German Patent Law Modernization Act do not develop the legal situation beyond the

“*Wärmetauscher*” case law of the German Federal Court of Justice. This matches the prevailing perspective of leading German judges at infringement courts and attorneys, who all contributed to the legislative process.

Hence, the envisioned amendment to the law will probably result in an increased degree of consideration of proportionality by the courts of lower instances based on the parties’ submissions, but the result will not change (much). Assuming disproportionality will be considered in rare exceptional cases at best - such an exceptional case has never been affirmed in German case law thus far. This is all the more true considering the fact that the legislative authorities themselves expressly stipulate that the existing legal situation should not fundamentally change. The only development - which also seems to be limited to rare exceptional cases - is the consideration of third-party interests which has now become possible and the possibility of permanently denying a claim for injunctive relief in absolutely exceptional cases, according to the statement of grounds for the bill; at any rate, these two aspects of the German Patent Law Modernization Act go beyond the current legal situation shaped by the “*Wärmetauscher*” decision of the German Federal Court of Justice. As soon as the German Patent Law Modernization Act becomes effective, amended Sec. 139(1) German Patent Act has to be applied by German courts, i.e. even to proceedings already pending.

The acceleration of nullity proceedings and the increased synchronization of infringement and nullity proceedings intended by the supplementation of the procedural rules of Secs. 81, 82, and 83 German Patent Act are welcome amendments. The fact that

the qualified notification is significantly preponed will facilitate the summary review by infringement courts of lower instances of the prospects of nullity proceedings in the context of the examination of a stay of infringement proceedings. However, it remains to be seen to which extent these new rules are practicable for the German Federal Patent Court, since this will probably require committing a considerable amount of additional human resources to the Patent Senates of the German Federal Patent Court and a significantly swifter handling of proceedings than has been normal thus far. Moreover, the preponement is only a directory - not a mandatory - provision. The amendments to the procedural rules of Secs. 81, 82, and 83 German Patent Act only apply to nullity actions filed after the German Patent Law Modernization Act becomes effective.

Likewise, the planned reference to the stipulations of the German Law on the Protection of Trade Secrets in Sec. 145a German Patent Act is good news. This eliminates the previously existing deficiencies in the protection of secrecy according the regulations to the German Code of Civil Procedure (ZPO) and the uncertainties associated to them. In particular, the presentation of comparable license agreements under FRAND aspects in patent infringement proceedings about standard-essential patents will become considerably easier in the future. It remains to be seen to which extent the envisaged exception for independent proceedings for gathering evidence, which are combined with an interim injunction in practice, will be applied.

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### Recommendations

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The above-mentioned aspects will have impacts on both the preparation for and the conducting of litigation. However, schematic solutions are not the answer; as has been the case before, a strategy has to be devised for each individual case, taking various factors into account, including the consequences of what has been explained above. Potential aspects which have an influence on the overall assessment particularly include:

In order to prevent an objection of disproportionality of the claim for injunctive relief, informing the infringer of a patent infringement when it becomes known is to be considered to make the infringer act in bad faith; such a notification of infringement may also have various negative implications which need to be taken into consideration.

Possibly, waiting too long before filing a complaint after a patent infringement becomes known, for example until the infringer has made considerable investments, is not advisable since it could benefit the infringer where a proportionality examination needs to be carried out.

It may be advisable, as the case may be, to make a reasonable license offer to the infringer that has carefully been thought out before or when filing the complaint. If the infringer has the possibility of averting a claim for injunctive relief by accepting such a license offer, hardly any German court will limit the claim for injunctive relief based on disproportionality.





An objection of a disproportionality of a claim for injunctive relief still entails a very considerable burden of demonstration on the part of the infringer. Hence, the facts and circumstances should be clarified, evidence should be gathered and prepared for the infringement proceedings early on. Ideally, the objection of disproportionality of a claim for injunctive relief is already submitted and fully substantiated in the statement of defense. In no circumstances should a substantiated statement of fact and provision of evidence of the disproportionality of a claim for injunctive relief be introduced into the proceedings only shortly prior to the oral hearing. If a workaround solution is an option, initiating its development at an early stage and documenting it in detail are advisable.

Potential infringers should try to stay on the safe side by conducting and documenting freedom-to-operate analyses and similar measures and, as the case may be, explore alternative solutions.

In view of the intended acceleration of nullity proceedings and the communication of the qualified notification by the German Federal Patent Court pursuant to Sec. 83(1) German Patent Act within six months after the nullity complaint was served, the infringer is recommended to intensely research state of the art early on more than ever, so that convincing state of the art can be considered when the qualified notification is prepared, so that the qualified notification can be used in the best possible way to achieve a stay of the infringement proceedings.

Patent proprietors, in turn, are well advised to clarify the question of validity and devise arguments prior to the proceedings to be able to act with the necessary speed during the proceedings.

What is clear is that German patent infringement and nullity proceedings have to be conducted with considerably more effort by all involved actors (the parties, courts, and attorneys/lawyers) in a significantly earlier phase.