

Opinion on the draft bill
of the Federal Ministry of Justice and Consumer Protection (BMJV)
of a second law to simplify and modernise the patent law
(2. PatMoG) of 1 September 2020

IP2innovate (www.ip2innovate.eu) is an initiative of research-intensive companies and associations¹ interested in high levels of patent protection, who want to work towards recalibrating the unbalanced patent law. Its objective is to better promote innovative capacity - especially in Germany - to ensure competitiveness, growth and prosperity.

IP2innovate welcomes the initiative of the BMJV to modernise German patent law and in particular the efforts to adapt the Patent Act (PatG) more closely to the reality and requirements of the increasing division of labour in the digitally networked economy of the 21st century. Such an adjustment seems urgently necessary in order to maintain the competitiveness of Germany as a location for business and innovation.

We welcome the draft bill (RefE) as the result of a thorough and comprehensive examination of the positions of affected parties in business and society on the draft discussion paper. In particular, the new draft for the adaptation of Section 139 represents a balanced reconciliation of different interests, which in particular maintains the strong German patent protection and limits the further development of the PatG to cases in which the practice of case law in recent years has shown that undesirable developments have occurred which cause unjustifiable damage in many sectors of German industry and small and medium-sized enterprises. In principle, the RefE is an adequate and goal-oriented solution to counter such undesirable developments in the future, while at the same time avoiding opening the door to weakening and undermining the right to injunctive relief.

In addition to the focus on the fulfilment (instead of enforcement) of the right to injunctive relief, the consideration of the interests of third parties and the clarification of the amended wording, we expressly welcome the amendments to the secondary criminal law (Section 142) and the corresponding synchronisation of the Utility Model Act. The possibility for the infringed party to demand appropriate compensation in money rounds off the balance of the entire regulation in a coherent manner.

¹ Adidas, Amadeus, BMW, Bull (Atos Technologies), Daimler, Dell, Deutsche Telekom, Freebox, Intel, Google, Microsoft, Nvidia, Proximus, SAP, Spotify and Wiko as well as the *Computer & Communication Industry Association (CCIA)*, the *European Electronic Component Manufacturers Association (EECA)* and the *Syndicat de l'industrie des technologies de l'information (SFIB)*. See also www.ip2innovate.eu/members/.

In our view, the draft bill therefore represents a coherent proposal. Although individual points, which are described in more detail below, could still be made more specific and improved, the legislative process should now be continued swiftly and completed in this legislative period. A postponement would not do justice to the urgency of the purpose of the essential modernisation measures and would jeopardise the future viability of key German industries.

A. Re Section 139 PatG

1. Against the background described above, we fully support the amendment to Section 139 paragraph 1 chosen in the RefE and confine ourselves to merely suggesting that the following concretisation be examined:

We consider the adjective "special" to be redundant in the context of the "circumstances of the particular case", since it goes without saying that the circumstances of each case will be *special and* characterise that particular case. The proposed wording could be misunderstood as meaning that the word "special" has a meaning beyond that already contained in the term "circumstances of the case". The deletion of the adjective "special" would thus avoid a different, unintended and otherwise undefined meaning.

2. In addition, we suggest a more consistent adaptation of the comments on No. 35 (Section 139 (1)) of the Special Section of the Explanatory Memorandum (RefE page 60 et seq.):
 - a. In view of the new wording of Section 139 PatG, the detailed recapitulation of the content of the BGH's "heat exchanger" decision on page 60/61 RefE seems redundant and dispensable. One could leave it here with a brief reference to the consistency of the legislative amendment with the highest court rulings. Specifically, the text could be streamlined by removing the parts crossed out below:

"The case law of the Federal Court of Justice (BGH) has confirmed this view. The BGH confirmed this in the so-called heat exchanger decision (BGH, ruling of 10.05.2016, Ref. X ZR 114/13, GRUR 2016, 1031), the BGH stated that the restriction of the right to injunctive relief by granting a period of use may be required from the point of view of good faith pursuant to Section 242 BGB in individual cases if the immediate enforcement of the injured party's right to injunctive relief, even taking into account his interests vis-à-vis the infringer, would constitute a disproportionate hardship not justified by the exclusive right and would therefore be contrary to good faith. ~~The BGH makes it clear that a limitation of the right to injunctive relief can only be considered in special constellations. In support of this, the BGH argues that in the case of a patent infringement – in contrast to trademark law, where legitimate goods are in themselves provided with signs which infringe a trademark – a patent-~~

~~protected product is directly manufactured or put on the market or a protected process is used. It is therefore a necessary consequence of the right to an injunction under patent law that the infringer must cease the infringing production or distribution and can only put the product concerned back on the market once he has either obtained the necessary rights from the infringer or modified the product so that it no longer infringes the intellectual property right, which may require considerable time and expense. The hardships which this inevitably entails must be accepted in principle. However, a limitation of the effect of the patent by granting a period of use could be justified if the economic consequences of immediate compliance with the injunction would, in the individual case, due to special circumstances, affect and disadvantage the infringer beyond the impairments associated with his pronouncement of the patent to such an extent that the unconditional prohibition would appear unreasonable (BGH, "Wärmetauscher", loc.cit., para. 41).~~

The interested parties essentially agree [...].

- b. We consider it particularly important to make it clear in the passage on "Complex products" (RefE page 62/63) that the circumstances of the individual case must be taken into account. We do not consider the reference to Margin Number 52 of the BGH ruling in the "Heat Exchanger" case to be helpful in this context, precisely because this paragraph refers to a specific individual case. In this context, it appears necessary to take into account the following situation, which is becoming increasingly common in many industrial applications: Even if a component element is not functionally essential to a complex overall product, an injunction directed against the overall product may nevertheless lead to serious and disproportionate economic consequences for the infringer's business, for example if the replacement of such an infringing element requires a lengthy process of design changes and tests and possibly new official approvals in all countries of distribution, or if the overall product without this component element is in fact no longer marketable. The economic damage caused by an omission can exceed the damage suffered by the patent holder as a result of the infringement by orders of magnitude.

In addition, it is noticeable from the citation that Margin Number 52 is not reproduced in full because the BGH had taken into account not only possible serious and disproportionate economic effects on the defendant's entire business operations but also the effects on individual segments of its product range.

In its current form, the reasoning in the draft bill therefore seems to invite the reader to make the absence of economic effects on the *entire* business operation (and not the effects on a specific segment of the product range, which are also mentioned in the BGH ruling) the yardstick for the existence of disproportionate

disadvantages in connection with complex products. We therefore strongly suggest that the following adjustments be made in this passage (delete crossed-out parts, add parts in bold):

*"In this case, too, it is necessary to consider in the context of an overall assessment of the circumstances whether an unconditional prohibition would have serious and - also with regard to the generally overriding interests of the infringer party - disproportionate economic effects on the infringer's ~~entire~~ business operations (BGH Wärmetauscher, loc.cit., para. 52). If the infringed patent is a subordinate, non-functional essential element of a component (e.g. a special equipment feature for a vehicle seat) for a complex overall product (e.g. a vehicle), serious and disproportionate economic effects on the infringer's ~~entire~~ business operations **could** be negated (BGH Wärmetauscher, ~~ibid.~~, para. 52). "*

B. Regarding Section 81 ff. PatG

We very much welcome the now envisaged possibility of being able to bring an action for annulment as a defendant in a patent infringement action even if an opposition to the patent is still possible or opposition proceedings are pending.

However, the amendment of Section 81 (2) Patent Act specifically provided for in the RefE raises essential questions and appears problematic for several reasons: According to the wording provided for in the RefE, all oppositions become inadmissible as soon as a nullity action has been filed. Thus, third parties are prematurely cut off from the possibility of filing or pursuing an opposition and are referred to the nullity action to pursue their interests. Furthermore, third parties (not themselves sued for infringement) may also file an action for annulment and thus trigger the consequence of the objections becoming inadmissible. Thus, for example, a straw man of the patent owner can make a promising and possibly already decision-ready opposition of a third party inadmissible. Furthermore, a provision in the Patent Act on the admissibility of oppositions does not extend to oppositions against a European patent (see also Art. 99(2) EPC). Therefore, in these cases, which are frequent in practice, it cannot contribute to avoiding conflicting decisions.

Instead, we propose the following wording to supplement Section 81 PatG, added after (2) sentence 1 as a new sentence 2

"Sentence 1 shall not apply to an action for a declaration of invalidity of the patent by an infringing defendant claimed under the patent or his intervener in infringement proceedings; for the determination of the remaining scope of protection of the

patent, all limitations of the scope of protection in final decisions in opposition or revocation proceedings shall then be taken into account. "

Justification:

The aim is to improve the synchronisation of the patent infringement procedure with the revocation procedure. This purpose is already achieved if the infringer (but not every third party) can bring an action for revocation of the patent from which he has been sued without having to wait for the expiry of the time limits or for the opposition proceedings to become final. It seems to be practical to grant this possibility of an early nullity action also to the interveners (secondary interveners) of the defendant in the patent infringement proceedings concerned, who often - e.g. as suppliers of the infringing party liable for damages - have an even stronger interest in the nullity of the patent than the infringing party itself. There is no need for a provision stating that oppositions are to become inadmissible if the possibility of filing a nullity action under the new second sentence, first half-sentence, is used, if it is clarified how to deal with allegedly contradictory decisions in opposition proceedings and after a nullity action. Accordingly, the patent remains in force to the extent that, in the sense of an intersection of the respective remaining scope of protection, it satisfies all decisions in opposition or nullity proceedings which have become final, irrespective of the chronological order in which these decisions became final. Decisions in opposition proceedings against European patents, even if they become final only at a late stage, are also given equal weight. By ensuring that actions for annulment brought by the infringer or his interveners before the deadline have no effect on oppositions which are pending or which have been filed within the deadline, the infringer and his interveners are given the opportunity for a flexible defence both by opposition and by action for annulment. For third parties, on the other hand, the previous legal situation regarding the chronological sequence of opposition and nullity action remains unchanged, which also saves the resources of the BPatG.

The reasons given so far in the RefE on pages 35 and 57 for the amendment of Section 81 (2) PatG should be adapted in line with the amended wording in our above proposal and the reasons discussed here.

With regard to qualified indication, we would have liked to see even greater dovetailing of proceedings before the Federal Patent Court and the ordinary courts than would probably be the case with the proposed "*shall*" rule and the six-month time limit in Section 83 (1) PatG. However, we expressly acknowledge that the BMJV, as shown in Section F of the text of the RefE, intends to take budgetary precautions in order to be able to deal with the additional expenditure foreseeable as a result of the new regulation on qualified information in a timely manner. Whether this will be sufficient to close the *injection gap* sustainably remains to be seen. In this respect, we suggest that an annual review be carried out in this respect in order to be able to make adjustments promptly if necessary.

C. Re Sections 142 and 145a PatG

We fully support the rules proposed in the RefE.

D. Regarding Section 24 GebrMG

In this respect, we would like to point out that Article 3(9) should read "The following sentences shall be added to the **first paragraph of** Article 24" (bold text inserted) This seems to be an editorial oversight, as the draft explicitly states in the explanatory memorandum to No. 9 that a parallelism between the amendments in the PatG and the Utility Model Law should be established.

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Annex²

Background and economic policy context

In recent years and decades, the nature of value creation has changed dramatically: The complexity of both new and conventional products has increased dramatically, leading to a significant increase in the number of patents potentially relevant to them. As early as 2011, a study concluded that over 250,000 patents could be relevant to a (then) smartphone; the same applies to memory chips and other semiconductors, which contain inventions that could be protected by tens of thousands of patents. But not only information technology is affected: In the course of increasing digitisation and networking, more and more industries with a comparable degree of complexity are already today - and will increasingly be in the future - facing an increasingly difficult to manage bundle of patent protection rights. Motor vehicles are already an example of this today.

For such highly integrated products, it is increasingly impossible for their manufacturers to have a complete overview of the relevant patents, even with careful analysis - especially not when supplied components are used which are created over several manufacturing stages and a deeply tiered hierarchy of suppliers. Even a complete and comprehensive examination of possible patent infringements for products newly introduced to the market is practically not always feasible.

The increasing number of patents in use means that the inventive value of a single patent is increasingly contributing only a relatively small part to the overall value of a complex, highly integrated product, such as a motor vehicle. For example, such patents may concern a single component which is of minor importance in the overall product. Nevertheless, the infringement of such a rather subordinate component leads to the fact that the complex product as a whole can be affected by an injunction based on it. In addition, in many products the replacement of a patent-infringing component requires a lengthy process of design changes and tests and - e.g. in the case of motor vehicles and medical equipment - its re-approval in all countries of distribution. The economic damage of an omission can exceed the damage suffered by the patent holder as a result of the infringement by orders of magnitude. An injunction may be disproportionate in such situations. Whether it is indeed so in a given case depends on the circumstances of the individual case.

In contrast, German patent law is based on the basic idea that a product is protected by a patent. Moreover, it was originally assumed that the monopoly granted by the patent was intended to give the patentee the time to bring his invention to market as a product before imitators were given the opportunity to do so.

² Taken from our opinion on the draft discussion paper (March 2020).

This purpose, which in itself makes sense, has now been overtaken not only by the technological division of labour, but also by the fact that there are companies which are founded solely for the purpose of buying up patents in order not to exploit them industrially, but to collect exorbitant licence fees solely by exploiting loopholes in the law. The legislator at the time did not have this practice in mind, which was contrary to the spirit of the law.

Modern and future-proof enforcement of patent law

The possibility given to the patent right holder to obtain an injunction in a quick and uncomplicated manner was once general and is still appropriate in many cases.

However, where complex, highly integrated products are concerned, which have a large number of independent functions based on a large number of patents, the situation is different: the value added to the product by a single patent can be dramatically lower than the economic damage caused by an omission relating to the product as a whole. In such cases, if the patent holder's interests can be satisfied by paying damages, an injunction would be disproportionate. This may also be the case where an NPE has the exclusive interest of licensing patents. Since royalties would only be due if the infringer's business continued unhindered, an injunction would be contrary to the patent holder's best interests.

Without the possibility of such a proportionality assessment, injunctive relief also leads to a lever for excessive licence claims, the basis of which would no longer be the actual value of the patent but the disproportionately greater damage caused by the injunction. The injunctive relief can have an effect beyond that of the defendant, for example if the operation of infrastructure facilities relating to mobile telephony or cloud computing has to be temporarily suspended. Both would not only run counter to the basic idea of the patent system, but also to the current and even more important division of labour and the digitally networked economy.

A modern patent law that promotes innovation is the best way, now and in the future, to ensure and effectively protect intellectual property in an increasingly dynamic economy based on the division of labour. It is an effective instrument which protects companies of all sizes, and especially SMEs, and makes competition fair for all.

The extensive use of patent law, which borders on abuse and originates from times of an economy based on a less division of labour, by patent collecting societies which are purely geared to maximising licence income and are otherwise not productively active, not only harms the companies concerned but is also a disadvantage for Germany as a business location as a whole: in contrast to companies producing in China or the USA, companies producing in Germany must always and without restriction expect the enforcement of a claim for injunction both with regard to the distribution of their products on the German market and with regard to their *entire* production.