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# **Injunctions and Damages for the Infringement of Patents under the UPCA**

**An Analysis in the Light of the Principle  
of Proportionality**

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*An Analysis in the Light of the Principle of Proportionality*

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## Table of contents

Table of contents.....	V
Executive Summary.....	IX
 <i>I. Research Question</i>	
<i>II. Main findings</i>	
<i>Part 1</i>	
<i>Injunctions</i> .....	1
A. Global legal framework for injunctive relief.....	1
I. TRIPS Agreement.....	1
1. Guidelines on injunctions.....	2
2. No preclusion of flexibility for injunctions.....	3
3. Flexibility as mandatory requirement.....	4
4. Art. 30 and Art. 31 TRIPS.....	5
II. Enforcement Directive.....	7
1. Guidelines on injunctions.....	7
2. No preclusion of flexibility for injunctions.....	8
3. Flexibility as mandatory requirement.....	9
4. Art. 12 IPRED as an example of proportionality considerations.....	11
III. General principles in EU Law.....	11
1. Fundamental Rights.....	11
2. Principle of proportionality.....	12
a) Proportionality as “mega standard”.....	12
b) “Enforcement-related” principle of proportionality.....	13
3. Further principles constraining injunctive relief.....	15
IV. US Supreme Court decision eBay v. MercExchange.....	16
V. Germany.....	17
VI. Conclusion.....	18
B. Injunctions within the UPCA.....	19

I. Distinction between rights and remedies.....	19
II. Procedural law or substantive law .....	22
III. Constraints on injunctive relief.....	24
1. Injunctions and discretion.....	24
2. Injunctions and proportionality.....	27
IV. Degree of flexibility.....	30
V. Conclusion .....	33
C. Application of the principle of proportionality.....	34
I. Typical scenarios.....	35
1. PAE.....	35
2. Complex products .....	36
3. Others .....	37
II. Factors which must be taken into account.....	37
1. Fault.....	38
a) Arguments as to why fault matters.....	38
b) Standard of negligence.....	40
c) Conclusion .....	41
2. Interest in injunctive relief.....	41
3. Economic consequences of an injunction .....	41
4. Purpose of patent law .....	42
5. Compensation.....	42
III. Consequences of disproportionality.....	44
IV. Conclusion.....	45

## Part 2

<i>Damages</i> .....	47
A. Award of damages in cases of denied, delayed or narrowly scoped injunctions, including interim award of damages (R. 119 UPCA Rules of Procedure).....	47
B. Principles of calculating damages (Art. 68 (2) UPCA) .....	50
I. Restoring the status quo ante.....	51
II. Disgorgement of the infringer's benefits.....	51
III. Compensatory, not punitive damages .....	54
IV. Proportionality.....	54
C. Calculation of damages (Art. 68 (3) UPCA) .....	54
I. Negative economic consequences.....	55

II. Unfair profits made by the infringer .....	56
1. Conceptual considerations .....	56
a) Wording and comparison of Art. 68 (3)(a) with (4) UPCA .....	56
b) Profits as factor to assess actual damage .....	57
c) Damages and award of profits as separate concepts .....	58
d) Actual damages, not lump sum approach .....	58
e) Comparative perspective .....	58
2. Taking into account the infringer's profits .....	60
a) Indicator for lost profits .....	60
b) Measure to assess the economic impact of the infringement .....	61
3. Calculation of infringer's profits .....	63
III. Lump sum-approach: reasonable royalty (Art. 68 (3)(c) UPCA) ...	64
1. Licensing practice of the right holder .....	65
2. Compensation rates customary in the industry .....	66
3. Market value .....	66
4. Elevation of licence fee .....	69
D. Compensation under Art. 68 (4) UPCA .....	70
I. Decision to deny a remedy .....	71
II. Choice of remedy .....	71
1. Recovery of profits .....	72
2. Compensation .....	72
E. Conclusion .....	72





## Executive Summary

### I. Research Question

The infringement of a patent regularly results in a claim for injunctive relief and damages. However, depending on the facts of an individual case an injunction might be disproportionate. An injunction might cause hardship for third parties, be contrary to the public interest or, first and foremost, disproportionately disadvantageous for the infringer (e.g. “hold-up”). In our study, we will discuss the impact of proportionality considerations on permanent injunctions and damages under the UPCA, with a special focus on non-practicing patent assertion entities (PAEs) and complex products. We will not discuss interim injunctions<sup>1</sup> or the issue of SEPs.

### II. Main findings

#### *Part 1 – injunction*

1. The TRIPS agreement establishes minimum standards for injunctive relief. The agreement does not prohibit discretionary remedies. Quite the contrary, a certain degree of flexibility within the framework of remedies is required. In the light of the principle of prohibition of abuse of rights and the TRIPS Agreement's objective of promoting innovation, flexibility appears to be a mandatory requirement. Art. 30 TRIPS refers to exceptions to the exclusive rights, but not to restrictions on the enforcement level. Entitlements conferred (“rights”) have to be clearly distinguished from remedies. A “right to prevent” does not necessarily have to be enforced with an injunction.

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<sup>1</sup> Cf. CJEU 28.4.2022 – C-44/21 – Phoenix Contact/Harting.

2. Likewise, the “Enforcement Directive” (IPRED) requires Member States to provide for injunctive relief, however not in all cases. On the one hand, remedies must be an effective tool to counter IP infringements. On the other hand, the Directive limits enforcement. First and foremost, granting a remedy must be proportionate. The case law of the CJEU clearly suggests that it is necessary to strike a fair balance between the interests of right holders, infringers and the public. Specifically, in intellectual property law, an enforcement-related principle of proportionality can be observed. Issuing an injunction without taking into account the particularities of the individual case violates the standards set by the IPRED. The (enforcement-related) principle of proportionality is enshrined in EU primary law.

3. Besides the principle of proportionality, which has been described as a “mega standard” within the European “Law of Remedies”, enforcement must not create barriers to legitimate trade. If a complex product cannot be marketed solely because of the non-intentional infringement of a patent concerning a small component of the entire product, patent law would create such a barrier.

4. The abuse of rights is prohibited by the IPRED as well. Enforcing a right contrary to its purpose can constitute such an abuse.

5. The implementation of a proportionality test in German Patent law in 2021 can serve as a “persuasive authority” for the UPCA. First, the reform shows that civil law jurisdictions traditionally providing for “automatic injunctions” can integrate a certain degree of flexibility in their remedial framework. Secondly, the reform constitutes a good compromise between jurisdictions exercising a “strong discretion” in the case of an application for an injunction and jurisdictions issuing injunctions as a matter of course.

6. Both civil law and common law countries differentiate between rights and remedies. An entitlement conferred (e.g. an exclusive right including a “right to prevent”) does not necessarily have to be enforced with an injunction. “Equitable remedies” are discretionary, whereas Sec. 139(1)(3) German Patent Act, an example for injunctive relief in a civil law country, allows “to rule out” the “claim for an injunction”. It is without doubt, that the fundamental distinction between rights and remedies is to be found in the UPCA as well. This is all the

more true as the UPC is influenced by the remedy system. Consequently, Art. 25 et seq. UPCA must not be misunderstood as remedial provisions. Injunctive relief is governed exclusively by Art. 63 UPCA.

7. Art. 63 UPCA is a provision of substantive law. Substantive law itself has to determine how patents are enforced. Even common law countries do not classify remedies as mere procedural law. Consequently, it is a question of substantive law, but not a question of procedure whether to grant or deny an injunction. The question of whether to grant or deny an injunction is governed by the principle of proportionality.

8. Two different understandings of discretion can be distinguished. Discretion in terms of choosing from different legal options can be contrasted with discretion as a need to balance competing interests at stake. The latter understanding corresponds with the proportionality test. Thus, it is a question of substantive law, but not a question of a judge's discretion whether to grant or deny an injunction based on the principle of proportionality. Against the backdrop of the IPRED and comparative law considerations, "discretion" in the UPCA is best understood as a reference to the proportionality test. This is all the more true as the proportionality test is derived from EU primary law, namely fundamental rights, with which the UPCA has to comply. Exceptions from granting an injunction in the case of a patent infringement are "rule-based".

9. The crucial question is the degree of flexibility inherent in Art. 63 UPCA and its interpretation in the light of the principle of proportionality. Where different viewpoints converge, it is best to steer a middle way. Injunctions will be awarded in normal cases, but defendants can convince the judge that the particularities of the case demand an exception. The requirements therefore are neither particularly stringent nor particularly lenient.

10. Although "case groups" in which injunctive relief always will be denied cannot be clearly described (the particularities of the individual case always have to be analysed closely), awarding injunctive relief for patents which are not exploited at all might lead to a contradiction to the aims of patent law. Absent of any specific justification enforcing a patent in such a case constitutes an abuse of law. An injunction can also be denied in the scenario of "complex products".

This might be the case if (1) the infringement is confined to a minor component of a complex product, (2) the degree of fault on the side of the infringer is low and (3) enforcing the injunction would result in considerable damages for the infringer.

11. The degree of fault is a decisive factor within the proportionality test. The lower the degree of fault, the more the negative consequences of an injunction for the infringer should be taken into account. Further factors which have to be taken into account are i.a. the interest of the patent proprietor in an injunction (questionable in the case of PAE), whether awarding an injunction is in conflict with the purpose of patent law or the economic consequences of an injunction.

12. The principle of proportionality serves as a basis for damages in lieu within the UPCA; alternatively, they may be based on the power of the Court to award interim damages pursuant to R. 119 UPC Rules of Procedure. In any case, the requirements for denial of injunctive relief on the grounds of disproportionality are all the less stringent, the more the interests of the patent proprietor are served by the payment of remuneration. In other words, if the patent proprietor is readily compensated, the threshold for proportionality can be exceeded more easily.

### *Part 2 – damages*

13. If the Court denied, delayed or narrowly scoped an injunction, that decision has no impact on the legality of the past and the future use of the patented invention. It may still award damages for future infringement of the patent that compensates the patent proprietor for the continuing use of its patent. However, as the retrospective award of damages causes a time gap between the infringing use and the payment of adequate compensation, the patent proprietor has to bear the insolvency risk of the infringer. This risk might be mitigated by the award of interim damages under R. 119 UPC Rules of Procedure that could be an instrument of the Court to de facto award payments in lieu of an injunction. Furthermore, the stay or limitation of the injunction may be made dependent on compliance with the interim award of damages.

14. We show that the “unfair profits made by the infringer” are neither an efficient nor a cost and time effective approach and therefore are not a suitable

method of calculating damages in cases in which the patent covers only a minor feature of a complex product or the patent proprietor is PAE. Instead, we argue that in cases in which the patent proprietor is a PAE, damages may only be calculated under a royalty approach according to Art. 68 (3)(c) UPCA. The royalty approach simplifies the calculation of damages – and serves as a measure to quantify the damage caused by the unlawful use of the patent as such.

15. If the patent proprietor has established a representative licensing practice on the market, those royalties are generally payable as damages. However, the patent proprietor must have established the royalty and other licencing conditions under market conditions in free negotiations. This excludes royalties obtained after a notice of an infringement under the threat of an injunction and damages proceedings.

16. In the absence of both an established practice of the patent proprietor or an industry practice, the Court has to determine the objective economic value of the infringing use. Two factors are particularly important: Firstly, the expected profit of the infringing business operation and, secondly, the influence of the patented invention on the expected profits. Reasonable parties primarily consider the value of the infringing use, in particular the influence of the patent on the marketing and sale of the infringer's product. In addition, the market position of the patent proprietor and the infringer must be taken into account, especially "with their strengths and weaknesses, in the market as it exists" (House of Lords). However, the simulated negotiation situation is that of a negotiation *before* the infringing use of the patent, not the (possible) hold up-situation after the infringement where the infringer has to take into account the otherwise sunk production costs as well as the costs of further legal proceedings.

17. We find it not convincing to call for an elevation of the reasonable royalty in order to compensate for the forfeited "threat value" of the denied or delayed injunction. Firstly, a licence fee is the price that the licensee pays the patent proprietor for waiving his right to obtain an injunction. The price cannot be higher just because there is no right to obtain a full or immediate injunction due to policy or proportionality reasons. Secondly, it is virtually impossible to determine the "threat value" of an injunction as it is the mere prerequisite for the negotiation of a licence fee.

18. Art. 68 (4) UPCA allows the Court to react to patent infringements without fault if the infringer did not knowingly, or with reasonable grounds to know, engage in the infringing activity. The Court has discretion in three different dimensions: Whether to grant a remedy at all, which remedy (recovery of profits or compensation) and the amount payable. We argue that it is usually not called for to award the infringer's profits in cases in which the infringed patent covers only a minor feature of a complex product, at least not in the sanctioning manner as the award of profits by the *Bundesgerichtshof* since the *Gemeinkosten* case. For the payment of compensation, the Court should usually use a reasonable royalty as a starting point.

# Part 1

## Kapitel 1

### Injunctions

#### A. Global legal framework for injunctive relief

Worldwide, remedies for patent infringements have attracted interest in recent years. In virtually all developed countries, particularly injunctions in patent law have been the subject of lively debates.<sup>2</sup> In this paragraph, we will discuss the general legal framework for injunctive relief in Europe. We take a look at TRIPS (1.), the Enforcement Directive (2.) and general principles in EU Law (3.). Furthermore, we will recall the notorious US Supreme Court decision *eBay Inc. v. MercExchange, L.L.C* (4.). Although this decision, of course, is not a binding precedent for European courts, it cannot be denied that this case had a remarkable impact on the continent, for example on German patent law. As the German jurisdiction, in addition, was famous for “automatic injunctions”,<sup>3</sup> we will furthermore shortly introduce the latest patent reform (5.). Accordingly, patent injunctions are subject to a proportionality test. Although not binding for the interpretation of the UPCA this might constitute a “persuasive precedent”. All in all, we will argue that the legal framework requires remedies to be proportionate (6.).

##### I. TRIPS Agreement

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<sup>2</sup> For an overview (from a law and economics perspective) *Cotter*, Comparative Patent Remedies. A Legal and Economic Analysis, 2013.

<sup>3</sup> For a detailed analysis which jurisdictions regularly provide for “automatic” injunctions (particularly Italy, France, Netherlands) and countries where courts (always) exercise discretion before issuing an injunction (particularly USA) *Contreras/Husovec*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 313 et seqq.



## 1. Guidelines on injunctions

On an international level, provisions addressing injunctive relief for patent infringements are rare. The TRIPS-Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights)<sup>4</sup> sets minimum standards for intellectual property rights including their enforcement (cf. Art. 1(1) TRIPS).

In detail, Part III of the agreement is dedicated to the enforcement of intellectual property rights. Although in many cases the agreement is quite general, it clearly requires its members to provide for injunctive relief. Pursuant to Art. 44(1) TRIPS, the judicial authorities shall have the authority to order a party to desist from an infringement. On a more general level, according to Art. 41(1) TRIPS members shall ensure that enforcement procedures as specified in Part III of the agreement are available under their law so as to permit “effective action” against any act of infringement of intellectual property rights covered by this agreement, including “expeditious remedies” to prevent infringements and remedies which constitute a “deterrent” to further infringements.

In addition, the TRIPS Agreement recognizes potential limits to injunctive relief. In principle, according to Art. 44(2) TRIPS members of the agreement may limit the remedies available against unauthorized use to the payment of remuneration. In any case, the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization (cf. Art. 44(2) TRIPS and Art. 31(h) TRIPS). More generally, Art. 41(1) TRIPS states, that “these procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.”

Against this background, the question is whether the TRIPS agreement allows or even demands its member states to adopt a discretionary approach to the award of injunctive relief.

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<sup>4</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (as amended on 23 January 2017). The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994.

## 2. No preclusion of flexibility for injunctions

As TRIPS sets minimum standards (cf. Art. 1(1) TRIPS), the starting point is that injunctive relief has to be available in each member state. More precisely, the WTO panel interpreted the wording “judicial authorities shall have the authority” not as an obligation to exercise the authority but as a requirement to equip national courts with the power to do so.<sup>5</sup> It is only required that the authority to award injunctive relief as such exists. Consequently, in line with the prevailing view, TRIPS does not require member states to award injunctions in all cases.<sup>6</sup> Quite the contrary, the function of the words ‘shall have the authority’ in Art. 44(1) TRIPS is to address the issue of judicial discretion.<sup>7</sup> Also because there have been few harmonising efforts at the “enforcement level” so far, there

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<sup>5</sup> Panel Report, India – Patent Protection for Pharmaceutical and Agricultural Chemical Products, WT/DS79/R, 24<sup>th</sup> August 1998, para. 7.66 (“Rather the function of the words ‘shall have the authority’ is to address the issue of judicial discretion, not that of general availability”); see also Panel Report, China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights, WT/DS362/R, 26<sup>th</sup> January 2009 (referring to Art. 59 TRIPS), para. 7.236 et seqq.: “The obligation is to ‘have’ authority not an obligation to ‘exercise’ authority. The phrase ‘shall have the authority’ is used throughout the enforcement obligations in Sections 2, 3 and 4 of Part III of the TRIPS Agreement, specifically, in Articles 43.1, 44.1, 45.1, 45.2, 46, 48.1, 50.1, 50.2, 50.3, 50.7, 53.1, 56 and 57. It can be contrasted with terminology used in the minimum standards of protection in Part II of the TRIPS Agreement, such as ‘Members shall provide’ protection, or that certain material ‘shall be’ protected. The obligation in Article 46 that certain authorities ‘shall have the authority’ to make certain orders reflects inter alia that orders with respect to specific infringements are left to enforcement authorities’ discretion.”; see also *Subramanian*, IIC 2008, 419 (446); *Obly*, GRUR Int 2008, 787 (790).

<sup>6</sup> *Stierle*, Mitt. 2020, 486 (492); *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 10; *Obly*, GRUR 2021, 304; *Obly*, GRUR Int. 2008, 787 (797); *Leistner*, GRUR 2022, 1633 (1634 et seq.); *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 2 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>); dissenting *L. Tochtermann*, ZGE/IPJ 2019, 257 (261).

<sup>7</sup> Panel Report, India – Patent Protection for Pharmaceutical and Agricultural Chemical Products, WT/DS79/R, 24<sup>th</sup> August 1998, para. 7.66.

remains significant room for the different legal traditions of different legal systems.<sup>8</sup> Art. 41(5) TRIPS underscores that the provisions on remedies do not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general. According to Art. 41(1) TRIPS, remedies have to constitute a deterrent to further infringements. However, this can be understood in the sense that the interplay of all remedial provisions must have such a deterrent effect.<sup>9</sup> If adequate compensation is available, at the outset, compliance with this provision is given.

### 3. Flexibility as mandatory requirement

Moreover, TRIPS also sets a “ceiling” for the standards possible (cf. Art. 1(1) TRIPS: “provided that such protection does not contravene the provisions of this Agreement”).<sup>10</sup> Arguably, excessive enforcement can be beyond the framework established.<sup>11</sup> Disproportionate enforcement has the potential to “contravene” the TRIPS agreement.<sup>12</sup> Whereas Art. 41(1) TRIPS demands “effective action against any act of infringement”, including “expeditious remedies” to prevent infringements and remedies which constitute a “deterrent to further infringements”, Art. 41(1) TRIPS at the same time states that these procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse. Even if Art. 41(1) TRIPS

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<sup>8</sup> *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 6 et seqq.; *Obly*, GRUR Int. 2008, 787 (790 and 797).

<sup>9</sup> *Leistner*, GRUR 2022, 1633 (1635).

<sup>10</sup> For an analysis of “ceilings”, *Große Ruse-Khan/Jaeger*, IIC 2009, 502 (521 et seqq.).

<sup>11</sup> *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 7.

<sup>12</sup> *Große Ruse-Khan/Jaeger*, IIC 2009, 502 (524) („In relation to the TRIPS provisions on IP enforcement though, things may be different: Several provisions contain binding language which set out general principles upholding procedural guarantees for the defendant or preventing the creation of trade barriers as well as specific obligations limiting enforcement measures”).

is interpreted only as a safeguard in procedural law,<sup>13</sup> Art. 8(2) TRIPS clarifies,<sup>14</sup> that the principle of the prohibition of the abuse of rights generally is anchored in international law. Based on this principle, some scholars indeed argue that the enforcement of patents constitutes an abuse of rights if the enforcement conflicts with the purpose of a patent.<sup>15</sup>

All in all, two indications can be identified according to which TRIPS prohibits disproportionate remedies. First, Art. 41(1) TRIPS (as well as Art. 8(2) TRIPS) proves that TRIPS is sensitive to overenforcement. Secondly, TRIPS understands IP rights as a means to foster innovation. At the same time, IP rights shall not restrict other legitimate interests (cf. Art. 7 TRIPS; Art. 8(2) TRIPS).<sup>16</sup>

#### 4. Art. 30 and Art. 31 TRIPS

Some scholars, however, suggest that any dilution of injunctive relief is in conflict with Art. 30 and Art. 31 TRIPS.<sup>17</sup> It is argued that these provisions exclusively govern any limitations of patents. Admittedly, according to the prevailing view, Art. 31 TRIPS does not bar discretionary approaches within the

<sup>13</sup> *Stierle*, Das nicht-praktizierte Patent, 2018, p. 314; *L. Tochtermann*, ZGE/IPJ 2019, 257 (261); as injunctions as well as “claims” in German civil law, arguably, can be understood as part of “procedural law” in a broader sense (*F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 420 et seqq.), *Stierle’s* argument is not compelling.

<sup>14</sup> Art. 8(2) TRIPS provides: „Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.”

<sup>15</sup> *Stierle*, GRUR 2019, 873 (875 et seqq.); *Obly*, GRUR Int. 2008, 787 (793 et seqq.); *F. Hofmann*, GRUR 2020, 915 (919 et seqq.); see also *Sikorski*, IIC 2022, 31 (41) („Fourthly, rights might also be abused when they are exercised contrary to their function or socioeconomic purpose”).

<sup>16</sup> *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 11 et seq.; as mentioned earlier it is “without any doubt” (“mit absoluter Sicherheit”) that constraints on remedies depending on the facts of individual cases are possible, *Leistner*, GRUR 2022, 1633 (1635).

<sup>17</sup> *Tilmann*, Mitt. 2020, 245 (245); *L. Tochtermann*, ZGE/IPJ 2019, 257 (261 et seqq.); see also BGH, 10.5.2016 – X ZR 114/13 para. 47 et seq. – Wärmetauscher and *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 13 et seqq.

framework of remedies.<sup>18</sup> This is obvious, as otherwise leading jurisdictions like the US, that adopt a flexible approach towards remedies (see below 4.) would not comply with TRIPS.<sup>19</sup>

On the merits, it should be noted, that the balancing of the various interests must not only be carried out at the level of exceptions and limitations or provisions on compulsory licenses, but that interests can be weighed up at all available dogmatic levels.<sup>20</sup> That e.g. business methods cannot be patented (level of the scope of protection) is just as much part of the trade-off between intellectual property and the public domain as constraints within the framework of remedies (level of enforcement). From a doctrinal point of view, remedies do not curtail the exclusive right as such, but restrict its enforcement.<sup>21</sup> The differences between the different “levels of constraints” are more than of academic relevance: Whereas e.g. a compulsory license transfers a right to the licensee to use the patent, a temporary suspension of an injunction does not render the infringement legal.<sup>22</sup> Consequently, damages remain available (see below Part 2 I). Thus, a proportionality test within remedial law does not fall within the scope of Art. 30 or Art. 31 TRIPS.<sup>23</sup> Notably, Art. 30 (“exceptions to *rights conferred*”) correlates with Art. 28 (“*rights conferred*”), but not with remedies.<sup>24</sup> As substantive law in a narrow sense has to be distinguished from remedies, it is no contradiction that a court ascertains an infringement but does not grant e.g. an injunction.<sup>25</sup> Even a “right to prevent” is not necessarily enforced with an injunction.<sup>26</sup>

<sup>18</sup> *Stierle*, Mitt. 2020, 486 (492); *Leistner*, GRUR 2022, 1633 (1634); with respect to EU law see also *F. Hofmann*, GRUR 2020, 915 (921).

<sup>19</sup> Cf. *Ohly*, GRUR Int 2008, 787 (797); *Leistner*, GRUR 2022, 1633 (1635).

<sup>20</sup> *F. Hofmann*, ZGE/IPJ2019, 249 (253 et seq.); see also *F. Hofmann*, ZUM 2018, 641 (645 et seq.) on copyright law. The considerations made also apply to patent law.

<sup>21</sup> Consequently, the WTO-case *Canada-Patent Protection of Pharmaceutical Products*, WT/DS114/R, is not a relevant precedent for restraints on remedies. The panel review provisions curtailing the patent right as such, not provisions on enforcement.

<sup>22</sup> Cf. *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62).

<sup>23</sup> *Stierle*, Das nicht-praktizierte Patent, 2018, p. 399 et seq.

<sup>24</sup> *Stierle*, Mitt. 2020, 486 (492).

<sup>25</sup> *Leistner*, GRUR 2022, 1633 (1634 fn. 8); a detailed analysis of the tier-structure of substantive rights and remedies can be found here: *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017.

<sup>26</sup> For a detailed analysis of the German legal system in this sense *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 211 et seq.

Of course, on the level of remedies, only a “fine-tuning” is possible.<sup>27</sup> In principle, a patent has to be enforceable, although this can be different depending on the facts of an individual case.

## II. Enforcement Directive

### 1. Guidelines on injunctions

In Europe, infringements of intellectual property rights are governed by the Enforcement Directive (Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights – IPRED).<sup>28</sup> In principle, the directive sets out minimum standards.<sup>29</sup> On an abstract level, Art. 3(1) IPRED obliges member states to provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be “fair and equitable” and shall “not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.” Art. 3(2) IPRED provides: Those measures, procedures and remedies shall also be “effective, proportionate and dissuasive” and shall be applied in such a manner as to “avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.”<sup>30</sup>

More specifically, Art. 11 IPRED requires Member States to ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed

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<sup>27</sup> F. Hofmann, ZGE/IPJ 2019, 249 (254 et seqq.).

<sup>28</sup> The Digital Services Act (Regulation (EU) 2022/2065) as well as the E-Commerce Directive (Directive 2000/31/EC of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce)) are of little direct relevance for patent enforcement, see however *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 27 et seq.

<sup>29</sup> CJEU, 25.1.2017 – C-367/15 para. 23 – OTK/SFP; *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 27 and p. 28.

<sup>30</sup> For a detailed analysis see *Ohly*, in: Drexler/Hilty/Boy/Godt/Remiche (eds.), *Technology and Competition, Contributions in Honour of Hanns Ullrich*, 2009, p. 257.

at prohibiting the continuation of the infringement. Pursuant to Art. 12 IPRED alternative measures are possible (“Member States may provide that, in appropriate cases and at the request of the person liable to be subject to the measures provided for in this Section, the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in this Section if that person acted unintentionally and without negligence, if execution of the measures in question would cause him disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory.”).<sup>31</sup> However, Art. 12 IPRED is an optional provision.

## 2. No preclusion of flexibility for injunctions

The IPRED is in compliance with TRIPS (cf. Art. 2(3)(b) IPRED).<sup>32</sup> As the European Union is a Member of TRIPS, EU law has to be interpreted in the light of TRIPS.<sup>33</sup> As outlined earlier (I.1.b), TRIPS does not require its members to provide for absolute injunctive relief, it more likely even prohibits an enforcement system without any flexibility. This in itself is already an argument that flexibility in enforcement is also inherent in the IPRED.

Besides, like the provision on injunctions in the TRIPS agreement, Art. 11 IPRED only obliges member states to provide injunctions in principle. Courts must have the authority to grant an injunction where appropriate. However, injunctions must not be granted in all cases.<sup>34</sup> Admittedly, courts have a certain

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<sup>31</sup> Art. 12 IPRED has as its model Art. 100 German Copyright Act (“Where the injuring party acts neither intentionally nor negligently, he or she may, in order to avert the assertion of the claims under sections 97 and 98, pay pecuniary compensation to the injured party if fulfilment of the claims would cause disproportionate harm and the injured party can be expected to accept pecuniary compensation. The compensation totals that amount which would constitute equitable remuneration were the right to be contractually granted. Payment of such compensation is deemed equivalent to granting the injuring party permission to exploit the right to the customary extent.”).

<sup>32</sup> See also recital 4 and recital 5 IPRED.

<sup>33</sup> Cf. CJEU, 15.11.2012 – C-180/11 para. 66 et seqq. – *Bericap*; CJEU, 25.1.2017 – C-367/15 para. 24 – *OTK/SFP*.

<sup>34</sup> *Leistner*, GRUR 2022, 1633 (1636); *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 29 et seq.

degree of discretion whether to grant or curtail an injunction.<sup>35</sup> Not only the wording (“may issue”) but also a comparative analysis endorses this view. (Former) Member States whose remedial system is built on common law would hardly have accepted automatic injunctive relief. Nothing can be found which suggests the opposite. In other words: Injunctive relief must only exist in principle; any further details of injunctive relief are not specified in Art. 11 IPRED.

### 3. Flexibility as mandatory requirement

In addition to the secured findings, that injunctive relief is not mandatory in all cases, like TRIPS the Enforcement Directive might also set some barriers for injunctive relief which have to be observed by the Member States.<sup>36</sup> As in the TRIPS Agreement, there is a prohibition on the abuse of rights (Art. 3(2) IPRED). Furthermore, remedies shall be applied in such a manner as to avoid the creation of barriers to legitimate trade (Art. 3(2) IPRED). And, most importantly, there is a reference to the principle of proportionality.

In fact, Art. 3(2) IPRED is understood as the basis for the proportionality test.<sup>37</sup> Art. 3(2) IPRED can be understood as prohibiting national courts from imposing disproportionate remedies.<sup>38</sup> Even those who oppose this view,<sup>39</sup> do not con-

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<sup>35</sup> *Obly*, GRUR 2021, 304 (305); *Leistner*, GRUR 2022, 1633 (1636); dissenting *L. Tochtermann*, ZGE/IPJ 2019, 257 (263 et seqq.).

<sup>36</sup> *Leistner*, GRUR 2022, 1633 (1636 et seq.); *Obly*, GRUR 2021, 304 (304 et seq.); *Arnold*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 65.

<sup>37</sup> CJEU 12.7.2011 – C-324/09 para. 139 – *L'Oréal/eBay*; *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (61); *Knaak*, GRUR Int. 2004, 745 (747); *Uhrich*, ZGE/IPJ 2009, 59 (88 et seq.); *Sikorski*, IIC 2022, 31 (50); see also *HTC Corporation v Nokia Corporation* (No. 2) [2014] R.P.C. 30 para. 32 („I consider that Article 3(2) of the Enforcement Directive permits and requires the court to refuse to grant an injunction where it would be disproportionate to grant one even having regard to the requirements of efficacy and dissuasiveness.”)

<sup>38</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (61).

<sup>39</sup> *Stierle*, GRUR 2019, 873 (877); *Stierle*, *Das nicht-praktizierte Patent*, 2018, p. 304 et seqq.; *Leistner*, GRUR 2022, 1633 (1637); more reluctant however *L. Tochtermann*, ZGE/IPJ 2019, 257 (263 et seqq.); *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (211 et seqq.).



test that proportionality is a key principle within the “Law of Remedies” in Europe.<sup>40</sup> We shall explore that in more detail in one of the next paragraphs (for more details see below I.3.b). In any case, the principle of proportionality as a mandatory requirement may have the effect of prohibiting disproportionate injunctions.<sup>41</sup> The rulings of the CJEU can be interpreted in this vein (for more details see below II.3.).<sup>42</sup>

Moreover, another argument can be made: That national courts *must* take into account the particularities of the individual case when enforcing intellectual property rights is expressly mentioned in the recitals. According to recital 17, the measures, procedures and remedies provided for in the IPRED should be determined in each case in such a manner as to take due account of the specific characteristics of that case. Recital 24 refers to the particularities of the case and demands a justification by the circumstances.<sup>43</sup> The Commission also takes the view, that proportionality considerations make it necessary that the competent judicial authorities should generally conduct a case-by-case assessment when

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<sup>40</sup> *Stierle*, GRUR 2019, 873 (876 et seq.); see also *F. Hofmann/Kurz*, in: Hofmann/Kurz (eds.), *Law of Remedies. A European Perspective*, Intersentia, Cambridge 2019, p. 3 et seqq; but also see differently *L. Tochtermann*, ZGE/IPJ 2019, 257 (266 et seq.).

<sup>41</sup> For example, *Knaak*, GRUR Int 2004, 745 (747); *Arnold*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 65 (“My thesis is simply stated: European law not merely enables, but requires, the courts of the Member States to be flexible when considering whether or not to grant an injunction in a patent case, and to tailor any injunction to the circumstances of the case. An injunction can only be granted when, and to the extent that, it is proportionate and strikes a fair balance between the fundamental rights that are engaged.”).

<sup>42</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 4 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“there can be no doubt that the principle of enforcement related proportionality will in the future also be relied on in patent law cases”).

<sup>43</sup> Recital 24 IPRED: “Depending on the particular case, and if justified by the circumstances, the measures, procedures and remedies to be provided for should include prohibitory measures aimed at preventing further infringements of intellectual property rights. Moreover, there should be corrective measures, where appropriate at the expense of the infringer, such as the recall and definitive removal from the channels of commerce, or destruction, of the infringing goods and, in appropriate cases, of the materials and implements principally used in the creation or manufacture of these goods. These corrective measures should take account of the interests of third parties including, in particular, consumers and private parties acting in good faith”.

considering the grant of the measures, procedures and remedies provided for by IPRED.<sup>44</sup> *Justice Arnold* consequently concludes that a “case-by-case assessment is required, and automatic rules are prohibited.”<sup>45</sup>

#### 4. Art. 12 IPRED as an example of proportionality considerations

Some scholars argue that Art. 12 IPRED has to be read as an exclusive exception for injunctive relief. Only under the conditions set out in Art. 12 IPRED can an injunction be denied.<sup>46</sup> Others argue that Art. 12 IPRED does not govern constraints on injunctions exclusively. This provision is only one example for a case in which an injunction would be disproportionate.<sup>47</sup> The latter view is convincing. Nothing in the materials suggest that proportionality is confined to the very specific scenario described in Art. 12 IPRED. Proportionality is a key principle in EU law (see below). Being derived from fundamental rights, the test cannot be summarized in a single, moreover rather narrow provision.

### III. General principles in EU Law

#### 1. Fundamental Rights

Even in IP cases fundamental rights are highly relevant.<sup>48</sup> Whereas fundamental rights emphasize the need for a fair balance of interests, the CJEU moreover has discovered fundamental rights as a tool for harmonisation.<sup>49</sup> In any case, it is settled case law that “Member States must, when transposing the directives mentioned above, take care to rely on an interpretation of the directives, which allows a fair balance to be struck between the various fundamental rights protected by the Community legal order.”<sup>50</sup>

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<sup>44</sup> Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights COM(2017) 708 final, p. 9 et seq.

<sup>45</sup> *Arnold*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 65 and p. 68 et seq.

<sup>46</sup> *L. Tochtermann*, ZGE/IPJ 2019, 257 (265).

<sup>47</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60 et seq.); *Leistner*, GRUR 2022, 1633 (1636).

<sup>48</sup> Cf. *Stierle/F. Hofmann*, GRUR Int. 2022, 1123 (1125 et seq.).

<sup>49</sup> The CJEU has been described as “a substitute legislature”, *Leistner*, GRUR 2017, 755.

<sup>50</sup> CJEU, 29.1.2008 – C-275/06 para. 68 – *Promusicae/Telefónica*.

This is particularly important for the enforcement of IP rights. For example, the CJEU considered filtering obligations for intermediary services to be incompatible *inter alia* with the fundamental rights of users of online platforms.<sup>51</sup> The Court held, that, in adopting an injunction requiring a hosting service provider to install a filtering system, the national court concerned would not be respecting the requirement that a fair balance be struck between the right to intellectual property, on the one hand, and the freedom to conduct business, the right to protection of personal data and the freedom to receive or impart information, on the other.<sup>52</sup>

Indeed, the CJEU tends to fill open standards such as the principle of proportionality (see below I.3.c) by referring to fundamental rights.<sup>53</sup> There is no convincing evidence why this should be different in patent law compared to trademark or copyright law.<sup>54</sup>

## 2. Principle of proportionality

### a) Proportionality as “mega standard”

It is undisputed that proportionality is a “general principle” of EU law (see also Art. 5(4) TEU).<sup>55</sup> Ultimately, this principle follows from fundamental

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<sup>51</sup> CJEU 16.2.2012 – C-360/10 para. 39 et seqq. and particularly para. 48 – SABAM/Netlog (“Moreover, the effects of that injunction would not be limited to the hosting service provider, as the contested filtering system may also infringe the fundamental rights of that hosting service provider’s service users, namely their right to protection of their personal data and their freedom to receive or impart information, which are rights safeguarded by Articles 8 and 11 of the Charter respectively.”).

<sup>52</sup> CJEU 16.2.2012 – C-360/10 para. 51 – SABAM/Netlog.

<sup>53</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 33 et seqq.

<sup>54</sup> But see *L. Tochtermann*, ZGE/IPJ 2019, 257 (264); she argues, that unlike copyrights patents are registered rights. What is decisive, however, is not the formal requirement of how protection can be achieved, but the material effect of an intellectual property right. All intellectual property rights grant exclusive rights to intangible assets; see CJEU 16.7.2015 – C-580/13 – para. 34 – Coty Germany GmbH/Sparkasse Magdeburg.

<sup>55</sup> *Sikorski*, IIC 2022, 31 (35, 37 et seq.); *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 30 et seqq.; Cf. *Stierle/F. Hofmann*, GRUR Int. 2022, 1123 (1125 et seq.).

rights.<sup>56</sup> In its case law, the CJEU regularly refers to the principle of proportionality.<sup>57</sup>

The CJEU postulates: “When implementing the measures transposing those directives, the authorities and courts of the Member States must not only interpret their national law in a manner consistent with those directives but also make sure that they do not rely on an interpretation of them which would be in conflict with those fundamental rights or with the other general principles of Community law, such as the principle of proportionality.”<sup>58</sup> Consequently, specifically injunctions “must be equitable and proportionate”.<sup>59</sup>

#### b) “Enforcement-related” principle of proportionality

The principle of proportionality plays a relevant role, especially in the “Law of Remedies”. Quite rightly, *Afori* pointedly described the proportionality principle as the “new mega standard”.<sup>60</sup> Although she referred to copyright law, this applies to patent law as well, as the CJEU reasoning is not based on specific copyright principles but general considerations.<sup>61</sup> In her analysis of CJEU copyright decision, *Fischman Afori* concluded that the proportionality test was introduced into copyright law through the framework of remedies.<sup>62</sup>

<sup>56</sup> *Stierle*, GRUR 2019, 873 (877); *Fischman Afori*, IIC 2014, 889 (895); cf. CJEU 12.7.2011 – C-324/09 para. 143 – *L’Oréal/eBay* (“must strike a fair balance between the various rights and interests”); CJEU 16.2.2012 – C-360/10 para. 44 – *SABAM/Netlog*.

<sup>57</sup> CJEU 19.2.2009 – C-557/07 para. 28 – *LSG/Tele2*; CJEU 12.7.2011 – C-324/09 para. 139 and para. 141 – *L’Oréal/eBay*; CJEU 27.3.2014 – C-314/12 para. 46 – *UPC*; CJEU 29.7.2019 – C-469/17 para. 49 – *Funko Medien*; CJEU 16.7.2015 – C-580/13 para. 34 – *Coty Germany/Stadtparkasse*; for an analysis see also *Sikorski*, IIC 2022, 31 (42 et seq.).

<sup>58</sup> CJEU, 29.1.2008 – C-275/06 para. 68 – *Promusicae/Telefónica*.

<sup>59</sup> CJEU, 7.7.2016 – C-494/15 para. 34 – *Tommy Hilfiger*.

<sup>60</sup> *Fischman Afori*, IIC 2014, 889.

<sup>61</sup> *Leistner*, GRUR 2022, 1633 (1637); *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 4 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“there can be no doubt that the principle of enforcement related proportionality will in the future also be relied on in patent law cases”); cf. *Arnold*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 66 et seqq.

<sup>62</sup> *Fischman Afori*, IIC 2014, 889 (890).

Indeed, (modern) European legislation is particularly aware of the need for proportionality in law enforcement. That flexibility is inherent in “European Law of Remedies” underscores, for instance, the provisions on enforcement in the Directive on Trade Secrets.<sup>63</sup> Several provisions provide safeguards against overly stringent remedies. In this vein, Art. 6 et seqq. establish a modern approach to enforcement in EU law which is based on open standards, more defences and further flexible elements particularly to curtail overly broad injunctions.<sup>64</sup>

The enforcement of genuine EU IP rights, European Union trade mark and community designs, depends on proportionality considerations as well. For example, Art. 130(1) Regulation (EU) 2017/1001 provides: Where an EU trade mark court finds that the defendant has infringed or threatened to infringe an EU trade mark, it shall, “unless there are special reasons for not doing so,” issue an order prohibiting the defendant from proceeding with the acts which infringed or would infringe the EU trade mark (similarly Art. 89(1) Regulation (EC) No 6/2002).

*Leistner* argues that within the broad principle of proportionality, a subset of an enforcement-related principle of proportionality can be delineated. Or more precisely: In European Law a general principle of proportionate enforcement (“enforcement-related proportionality”) has evolved.<sup>65</sup> He argues that there can be no doubt that the “principle of enforcement-related proportionality” will in

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<sup>63</sup> Directive (EU) 2016/943 of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure; classifying this as an exception within the Law of Remedies *L. Tochtermann*, ZGE/IPJ 2019, 257 (275 et seq.).

<sup>64</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 28 fn. 14.

<sup>65</sup> *Leistner*, GRUR 2022, 1633 (1637) (“Against this background, it can be assumed overall that the principle of proportionality as a general principle of Union law in the area of enforcement of intellectual property rights has meanwhile been concretized as an enforcement-related principle of proportionality.”).

the future also be relied on in patent law cases.<sup>66</sup> This analysis is based on a careful analysis of the relevant case law.<sup>67</sup> Or as *Fischman Afori* puts it: “[T]here is a growing understanding that remedies should not be viewed as simply a legal by-product of the determination that an infringement has taken place, but rather as a complimentary means of implementing policy”.<sup>68</sup> Comparative law findings support this view. For example, the English High Court held in *Edwards Lifescience v. Boston Scientific Scimed*, that proportionality *must* be considered.<sup>69</sup>

All in all, it becomes very clear that enforcement of any intellectual property right is subject to proportionality considerations. Mandatory injunctions would be in conflict with this fundamental principle.

### 3. Further principles constraining injunctive relief

Regularly the CJEU rules that a court issuing an injunction “must ensure that the measures laid down do not create barriers to legitimate trade.”<sup>70</sup> That implies that, e.g. an injunction obtained against that operator of an online intermediary such as eBay cannot have as its object or effect a general and permanent prohibition on the selling, on that marketplace, of goods bearing trademarks which are used without authorisation of a single user of the platform.<sup>71</sup> Interestingly, one could equally argue that the marketing of products in Europe should not be prohibited just because a single, insignificant component of that product infringes a patent. Otherwise, a barrier to legitimate trade would be erected.

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<sup>66</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 4 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>67</sup> Cf. CJEU 19.2.2009 – C-557/07 para. 28 – LSG/Tele2; CJEU 12.7.2011 – C-324/09 para. 139 and para. 141 – L’Oréal/eBay; CJEU 27.3.2014 – C-314/12 para. 46 – UPC; CJEU 29.7.2019 – C-469/17 para. 49 – Funke Medien; CJEU 16.7.2015 – C-580/13 para. 34 – Coty Germany/Stadtparkasse.

<sup>68</sup> *Fischman Afori*, IIC 2014, 889 (892).

<sup>69</sup> (2018) EWHC 1256 (Pat) para. 12 et seqq.; see also *HTC v. Nokia* (2013) EWHC 3778 (Pat) para. 26; *Cartier v. British Sky* [2014] EWHC 3354 (Ch) para. 162.

<sup>70</sup> CJEU 12.7.2011 – C-324/09 para. 140 – L’Oréal/eBay; CJEU, 7.7.2016 – C-494/15 para. 34 – Tommy Hilfiger.

<sup>71</sup> CJEU 12.7.2011 – C-324/09 para. 140 – L’Oréal/eBay.

Last but not least, EU law recognises that rights must not be abused. The prohibition of abuse of rights can also be classified as a general principle of EU Law (cf. Art. 3(2) IPRED; Art. 7(1)(c) Directive 2016/943).<sup>72</sup> It already has been outlined that several scholars base restrictions on injunctive relief on that principle. It is abusive, if the enforcement of a right contravenes the purpose of the respective right.<sup>73</sup>

That intermediary services are not subject to a general monitoring or active fact-finding obligation (cf. Art. 7 Digital Services Act – Regulation (EU) 2022/2065), has not been relevant in patent cases so far.<sup>74</sup>

#### IV. US Supreme Court decision *eBay v. MercExchange*

One of the most important patent decisions of this century is the 2006 US Supreme Court decision in *eBay Inc. v. MercExchange*. The court held that injunctions must not be issued as a matter of course. Given its nature as an equitable remedy, the court has discretion whether to grant an injunction or not. In detail, according to a “four factor”-test, the plaintiff in a patent case who seeks a permanent injunction has to demonstrate “(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”<sup>75</sup>

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<sup>72</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 32, p. 44 and p. 52; Art. 7(1)(c) Directive 2016/943 provides: “The measures, procedures and remedies provided for in this Directive shall be applied in a manner that: (...) provides for safeguards against their abuse.”

<sup>73</sup> Only *Stierle*, GRUR 2019, 873 (875 et seq.).

<sup>74</sup> Cf. however CJEU, 16.7.2015 – C-170/13 para. 62 – Huawei (“As the Advocate General has observed in point 81 of his Opinion, in view of the large number of SEPs composing a standard such as that at issue in the main proceedings, it is not certain that the infringer of one of those SEPs will necessarily be aware that it is using the teaching of an SEP that is both valid and essential to a standard.”).

<sup>75</sup> *eBay Inc. v. MercExchange, LLC*, 547 US 388 (2006).

Notably, the claimant has the burden of proof to establish all of these factors.<sup>76</sup> Particularly, the enforcement of patents held by PAE has been restricted significantly.<sup>77</sup>

## V. Germany

In Germany, injunctions in patent law were readily issued. If an infringement of a patent was asserted, an injunction was granted as a matter of course. This system of “automatic injunctions” came under pressure.<sup>78</sup> Many industries lobbied for more flexibility and academics more and more recognized that the “Law of Remedies” provided for a further tool to balance competing interests in IP law.<sup>79</sup>

The German legislature reacted and Sec. 139(1) Patent Act was amended. Sec. 139(1) now provides: “Any person who uses a patented invention contrary to sections 9 to 13 [infringes a patent] may, in the event of the risk of recurrent infringement, be sued by the aggrieved party for cessation and desistance. Injunctive relief shall be excluded, if it would lead to a disproportionate hardship for the infringer or third parties not justified by the exclusive right due to the special circumstances of the individual case and the requirements of good faith. In that case, the plaintiff shall be granted appropriate pecuniary compensation. The claim for damages shall remain unaffected.”

The legislature clearly states that proportionality has to be taken seriously.<sup>80</sup> German patent law has abandoned automatic injunctions although the judiciary remains reluctant to apply the new standard.

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<sup>76</sup> See also *Nieder*, GRUR 2023, 995.

<sup>77</sup> For more details see the empirical study of *Seaman*, 101 Iowa Law Review 1949 (2016); see also *Subramanian*, IIC 2008, 419; see also *Contreras/Husovec*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 319.

<sup>78</sup> Still reluctant however BGH, 10.5.2016 – X ZR 114/13 – Wärmetauscher.

<sup>79</sup> Cf. only *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017.

<sup>80</sup> For an overview see *Stierle/F. Hofmann*, GRUR Int. 2022, 1123; see also *Stierle*, GRUR 2022, 273.



This development can be a blueprint for the UPC. First, the German provision illustrates that systems granting injunctions as a matter of course can converge with those which allow for a great deal of flexibility on the level of remedies. Secondly, the German provision can be a “persuasive authority” as the interests of patent proprietors and the need for flexibility are well-balanced.

## VI. Conclusion

From the aforementioned we can easily draw the conclusion that injunctive relief is not absolute. In light of the principle of proportionality, the denial or curtailing of injunctive relief is not only possible but might also be required depending on the facts of the case.<sup>81</sup> Since the principle of proportionality is found in EU primary law, it cannot be waived by “sub-constitutional law”. Thus, whereas in typical infringement cases injunctive relief should be available without further ado, courts must refuse to grant injunctive relief in atypical cases.<sup>82</sup>

This mirrors the findings of *Contreras* and *Husovec* who published a comparative study on patent remedies. They highlight that even the most rigid legal system provides some degree of discretion or flexibility with respect to injunctions under certain circumstances.<sup>83</sup> Flexibility at the remedial stage of an action can help to alleviate inefficiencies otherwise caused by uniformity within the patent system.<sup>84</sup> As it is impossible to tailor patent grants to the societal value of individual inventions, tailoring mechanisms that can be deployed in the area of remedies can help to address inefficiencies resulting from uniformity of cost.<sup>85</sup> Whereas it can easily be concluded that it is crystal clear that injunctive relief has to be subject to proportionality considerations, it is highly controversial how

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<sup>81</sup> *Leistner/Pless*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 32.

<sup>82</sup> *Leistner/Pless*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 30.

<sup>83</sup> *Contreras/Husovec*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 2.

<sup>84</sup> *Contreras/Husovec*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 2.

<sup>85</sup> *Contreras/Husovec*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 2.

strict the test in practice is. Can injunctions be suspended only in extremely exceptional cases, in exceptional cases or in any case where it appears to be convenient to do so (“entirely free procedural discretion”)?<sup>86</sup> Before exploring that, we have to demonstrate that indeed under the UPCA the aforementioned principles apply as well.

## B. Injunctions within the UPCA

Before analysing whether the UPCA provides for flexibility within the remedial framework, we will first outline that the UPCA distinguishes between rights and remedies. The “right to prevent” (cf. e.g. Art. 25 UPCA) and the provision on injunctions in Art. 63 UPCA must not be mixed up. In other words, that patents are exclusive rights does not determine the availability of injunctive relief (1.). Furthermore, we highlight that the provisions on remedies are part of substantive law (2). Most importantly, we will show that injunctive relief will be denied where issuing an injunction is disproportionate. First, general principles in EU law require a proportionality test within the framework of remedies. Secondly, the UPCA itself is sensitive to “fair and equitable” remedies (3). Consequently, the crucial question is what level of flexibility is required. We argue for a “middle way” between “weak” and “strong” flexibility (4).

### I. Distinction between rights and remedies

Chapter IV UPCA is entitled “Powers of the Court”. Remedies for patent infringements can be found in this section. Art 63(1) UPCA (“Permanent injunctions”) provides: “Where a decision is taken finding an infringement of a patent, the Court may grant an injunction against the infringer aimed at prohibiting the continuation of the infringement. The Court may also grant such injunction against an intermediary whose services are being used by a third party to infringe a patent.”

According to the prevailing view, Art. 63(1) UPCA is the basis for injunctive relief. Some authors, however, want to deduce injunctions from Art. 25 et seq.

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<sup>86</sup> For a middle way *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58.

UPCA or Art. 5 Regulation (EU) No. 1257/2012.<sup>87</sup> Art. 25 UPCA provides for “the right to prevent” any third party not having the proprietor’s consent from using the patented invention. Similarly, Art. 26 UPCA provides for the right to prevent the indirect use of the invention. In Art. 5 Regulation (EU) No. 1257/2012 the right to prevent is also addressed. It is argued that “the right to prevent” is nothing but a claim for injunctive relief, in short: an injunction. At least, the remedial provision in Art. 63(1) UPCA has to be interpreted in the light of Art. 25 et seq. UPCA.<sup>88</sup> We, in turn, do not share this view.

It is crucial to distinguish between rights and remedies.<sup>89</sup> Generally, substantive law in a narrow sense has to be clearly separated from remedial provisions. The latter are rooted in substantive law as well (see below II.2). Nonetheless, these provisions are of a different nature compared to provisions allocating entitlements.<sup>90</sup> Although injunctions in ordinary cases regularly replicate the right to prevent (“right to exclude third parties”), it is possible that the right to prevent is not enforced via an injunction but via alternative remedies instead. A good example for this are “use by” periods.<sup>91</sup>

Even in civil law countries like Germany, there is a clear distinction between exclusive rights on the one hand and respective remedies on the other hand. Whereas e.g. Sec. 903 German Civil Code (Bürgerliches Gesetzbuch) defines the scope of physical property, injunctive relief is governed by Sec. 1004(1) German

<sup>87</sup> *Henke*, in: Benkard, Europäisches Patentübereinkommen – EPÜ, 4th Ed. 2023, Vorbermerkung B: Überblick über das Einheitliche Europäische Patentsystem: Einheitspatent und Einheitliches Patengericht para. 53; *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (217). for an overview cf. *Leistner*, GRUR 2022, 1633 (1638).

<sup>88</sup> *Tilmann*, in: Tilmann/Plassmann (eds.), Unified Patent Protection in Europe. A Commentary, 2018, Art. 63 UPCA para. 1 et seqq.; *Tilmann*, GRUR Int. 2016409 (414); *L. Tochtermann*, ZGE/IPJ 2019, 257 (273).

<sup>89</sup> See also *Leistner*, GRUR 2022, 1633 (1638 et seq.).

<sup>90</sup> *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 122 et seqq.

<sup>91</sup> Cf. *Edwards Lifesciences v. Boston Scientific* para. 67 [2018] EWHC 1256 (Pat); Use-by periods (*Aufbrauchsfristen* – for a good overview see *J. B. Nordemann*, ZGE/IPJ 2019, 309), for instance, illustrate that remedies are, even in the German legal system, not only a “legal-by-product”. In such cases an infringement is temporarily not enforced via an injunction; damages remain available as the infringing act remains illegal; dissenting *Tilmann*, in: Tilmann/Plassmann (eds.), Unified Patent Protection in Europe. A Commentary, 2018, Art. 63 UPCA para. 35 et seq.

Civil Code.<sup>92</sup> The distinction is even clearer in Intellectual Property Law. Sec. 9 et seqq. German Patent Act describe the effects patents have (“right to exclude”), whereas “legal infringements” are governed by Sec. 139 et seqq. German Patent Act. The availability of injunctive relief according to Sec. 139(1) German Patent Act requires, first of all, that the addressee of injunctive relief “used a patented invention contrary to sections 9 to 13 [German Patent Act]”. Sec. 139(1)(3) German Patent Act illustrates that the right to prevent in terms of a right to injunctive relief can be “excluded” in principle.

In common law countries, the “remedy-system” is even more clearly based on the differentiation of rights and remedies.<sup>93</sup> Injunctions as equitable remedies are not issued as a matter of course even in cases where a violation of an exclusive right has been established. In this vein, the US Supreme Court states: “But the creation of a right is distinct from the provision of remedies for violations of that right.”<sup>94</sup> J. Kennedy adds: “Both the terms of the Patent Act and the traditional view of injunctive relief accept that the existence of a right to exclude does not dictate the remedy for a violation of that right.”<sup>95</sup>

This taxonomy is mirrored by the UPCA. Chapter V refers to “substantive law”. Particularly, Art. 25 UPCA and Art. 26 UPCA define the effects a patent has; the provisions allocate certain entitlements to the patent proprietor. Art. 63 UPCA is part of Part III addressing “procedural provisions”, particularly “powers of the Court”. That “remedial law” is addressed here is illuminated by the fact that in common law countries remedies are defined as “court orders”. The notion of “court orders” again is found in the wording of the UPCA (e.g. Art.

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<sup>92</sup> Sec. 1004(1) German Civil Code provides: If the ownership is interfered with by means other than removal or retention of possession, the owner may demand that the disturber remove the interference. If there is the concern that further interferences will ensue, the owner may seek a prohibitory injunction.

<sup>93</sup> Cf. F. Hofmann, *Der Unterlassungsanspruch als Rechtsbehelf*, 2017, p. 26 et seqq.

<sup>94</sup> *eBay Inc. v. MercExchange*, L. L. C., 547 U.S. 388, 392 (2006).

<sup>95</sup> *eBay Inc. v. MercExchange*, L. L. C., 547 U.S. 388, 396 (2006).

68 UPCA). Indeed, the UPCA as well as remedial provision in EU law were influenced by the characteristics of “remedy-systems”<sup>96</sup> in contrast to civil law systems like Germany that base the enforcement on “legal claims”.<sup>97</sup> This is further illustrated by the fact, that the basis for injunctions in English law is based on Art. 37 Senior Courts Act 1981<sup>98</sup> is also headed “Powers” of the court.<sup>99</sup>

As a result, neither Art. 5 or Art. 25 et seq. UPCA must be misunderstood as provisions providing for remedies nor “dictating” the scope of injunctions.<sup>100</sup>

## II. Procedural law or substantive law

Art. 63 UPCA is found in the Chapter referring to the “Powers of the Court”. Besides, the wording of Art. 63 UPCA (as well the provision on damages, Art. 68 UPCA) is formulated procedurally. Thus, the question arises whether remedies, particularly injunctions, are part of procedural or substantive law.

Again, the provision in the UPCA reminds us of characteristics of “remedy-systems” in contrast to civil law jurisdictions such as Germany.<sup>101</sup> In Germany, courts have a passive role. Simply put, they merely assert that the claimant has a

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<sup>96</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 5 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>97</sup> See an analysis concerning EU law, *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 85 et seqq.

<sup>98</sup> Sec. 37(1) provides: The High Court may by order (whether interlocutory or final) grant an injunction or appoint a receiver in all cases in which it appears to the court to be just and convenient to do so.”

<sup>99</sup> Cf. *Cartier v. British Sky* [2014] EWHC 3354 (Ch).

<sup>100</sup> Unambiguous *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 10 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>); see also *Leistner/Pless*, in: Contreras/Husovec (Eds.), Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring, Cambridge University Press, 2022, p. 51; *Leistner*, GRUR 2022, 1633 (1638).

<sup>101</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 5 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

right to demand the defendant does or refrains from a certain act. “Court orders” replicate material subjective rights.<sup>102</sup> In contrast, in common law countries courts play an active role. Court orders set the consequences of a violation of the law constitutively. First and foremost, at least with respect to “equitable remedies” such as injunctions, courts have the power to exercise discretion (we will further outline the notion of “discretion” below). Remedies are separate from both substance and procedure.<sup>103</sup> It is said that the law of remedies “falls somewhere in between procedure and primary substantive rights. Remedies are substantive, but they are distinct from the rest of substantive law, and sometimes their details blur into procedure.”<sup>104</sup>

At the end of the day, however, substantive law itself has to determine which remedies are available and what requirements have to be met.<sup>105</sup> Consequently, the prevailing view qualifies Art. 63(1) UPCA as a provision rooted in substantive law.<sup>106</sup> Likewise “use by-periods” or “grace periods” under German law (temporal suspension of an injunction) are assigned to the realm of substantive law. The temporal suspension of an injunction is not a “benefaction” of the court, but a matter of the law itself.<sup>107</sup>

By the way, in Germany injunctions were originally understood as mere procedural means. The wording of Sec. 1004(1) German Civil Code still attests to the procedural roots.<sup>108</sup> Nonetheless, the modern view is that injunctions are “claims” rooted in substantive law.<sup>109</sup>

<sup>102</sup> F. Hofmann, JuS 2018, 833 (835); Wolf/Neuner, BGB AT, 2016, § 21 para. 29.

<sup>103</sup> Dobbs, Law of Remedies. Damages – Equity – Restitution, 1993, p. 2; see also Zakrzewski, Remedies reclassified, 2005, p. 5.

<sup>104</sup> Laycock, Modern American Remedies. Cases and Materials, 2012, p. 1.

<sup>105</sup> F. Hofmann, WRP 2018 1 (5 et seqq.); Leistner, GRUR 2022, 1633 (1639); see also Leistner/Pless, in: Contreras/Husovec (Eds.), Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring, Cambridge University Press, 2022, p. 51.

<sup>106</sup> Sonntag, in: Bopp/Kirchner, Handbuch Europäischer Patentprozess, 2023, § 13 para. 247; Nieder, GRUR 2023, 995 (995 et seq.).

<sup>107</sup> Cf. Nieder, GRUR 2023, 995 (995 et seq.).

<sup>108</sup> For further details F. Hofmann, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 59 et seqq.

<sup>109</sup> BGH 09.11.1979 – I ZR 24/78;

One of the main consequences of this view is that “discretion” means that it is necessary to balance the competing interests. Thus, it is a question of substantive law, but not a question of a judge’s discretion whether to grant or deny an injunction based on the principle of proportionality.<sup>110</sup> Particularly, such an understanding is readily compatible with the German legal system. Besides, the material nature of Art. 63 UPCA clarifies that injunctive relief is governed by Art. 63 UPCA and not by Art. 25 et seq. UPCA.<sup>111</sup>

### III. Constraints on injunctive relief

#### 1. Injunctions and discretion

From the outset, it was disputed whether judicial discretion was inherent in Art. 63(1) UPCA. Although civil law jurisdictions are not familiar with the concept of “discretion” within the framework of private law remedies, it is widely argued that Art. 63(1) UPCA grants “judicial discretion” to the UPC.<sup>112</sup> The court shall have the power to decide, whether it grants an injunction or depending on the facts of the individual case may tailor injunctive relief. This view is supported by the wording of the provision (“may” instead of “shall”).<sup>113</sup> Contrasting the wording of Art. 63(1) UPCA (“may”) with Art. 68(1) UPCA (“shall”) removes any doubts.

<sup>110</sup> See also *Leistner*, GRUR 2022, 1633 (1639 and 1640); *L. Tochtermann*, ZGE/IPJ 2019, 257 (272).

<sup>111</sup> *Leistner*, GRUR 2022, 1633 (1638 et seq.).

<sup>112</sup> *Nieder*, GRUR 2023 995; *Meier-Beck*, GRUR 2014, 144 (fn. 1); *Schröer*, GRUR Int. 2013, 1102 (1107); *Sonntag*, in: Bopp/Kirchner, Handbuch Europäischer Patentprozess, 2023, § 13 para. 254; see also *Leistner/Pless*, in: Contreras/Husovec (Eds.), Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring, Cambridge University Press, 2022, p. 50 et seq.; *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 10 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“limited leeway of discretion for the Court”); dissenting *Tilmann*, GRUR Int. 2016, 409 (416); but see *Tilmann*, in: Tilmann/Plassmann (eds.), Unified Patent Protection in Europe. A Commentary, 2018, Art. 63 UPCA para. 27 et seqq.

<sup>113</sup> See however *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (217) (“may” in the sense of “shall have the power”); *Tilmann*, in: Tilmann/Plassmann (eds.), Unified Patent Protection in Europe. A Commentary, 2018, Art. 63 UPCA para. 29.

Moreover, the wording differs from provisions in civil law countries.<sup>114</sup> Namely in Germany, an injunction has not been understood as a remedy (“court order”) that a court can grant if appropriate, but the patent proprietor has a legal right (cf. Sec. 139(1) German Patent Act: “This right may also be asserted”) to an injunction in the case of an infringement.<sup>115</sup> Indeed, Art. 63(1) UPCA does not refer to a “right” to injunctive relief but authorises courts to issue an injunction. It is evident that Art. 63 is more aligned with the English system of discretionary remedies than with automatically granted “claims”.<sup>116</sup> Again, a comparison with the wording of, for instance, Art. 37 Senior Courts Act<sup>117</sup> illustrates this.<sup>118</sup> Rule 118.1. UPC RoP also recognizes that the UPC has “discretion” when issuing an injunction according to Art. 63(1) UPCA.<sup>119</sup> In this vein, Art. 42(2) UPCA provides that courts shall ensure that the rules, procedures and remedies provided for in this Agreement and in the Statute are “used in a fair and equitable manner” and do “not distort competition”.

Furthermore, the remedial provision in the UPCA mirrors those of the Enforcement Directive.<sup>120</sup> With respect to the Enforcement Directive, the prevailing view suggests that injunctive relief is not mandatory in every case. Quite the contrary, disproportionate remedies do not comply with the principle of proportionality (see above, I.3.). In the light of the proportionality principle, Art. 63

<sup>114</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60).

<sup>115</sup> *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 83 et seq.

<sup>116</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60); on discretionary remedies in within the Anglo-American “remedy-system” *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 35 et seqq.

<sup>117</sup> Sec. 37(1) provides: The High Court may by order (whether interlocutory or final) grant an injunction or appoint a receiver in all cases in which it appears to the court to be just and convenient to do so.” Sec. 139(1) German Patent Act reads in turn: “(1) Any person who uses a patented invention contrary to sections 9 to 13 may, in the event of the risk of recurrent infringement, be sued by the aggrieved party for cessation and desistance. This right may also be asserted in the event of the risk of a first-time infringement. (...)”.

<sup>118</sup> See also Sec. 50 Senior Courts Act (“Where the Court of Appeal or the High Court has jurisdiction to entertain an application for an injunction or specific performance, it may award damages in addition to, or in substitution for, an injunction or specific performance.”).

<sup>119</sup> Cf. *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (218.).

<sup>120</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60).



UPCA not only permits but *requires* the UPC to refuse the grant of an injunction if this remedy were disproportionate.<sup>121</sup> However, recourse to the Enforcement Directive as well as general EU law also suggests that discretion does not mean that the court is more or less free to decide in every case whether or not to grant injunctions.<sup>122</sup>

Indeed, the discretionary nature of Art. 63(1) UPCA is not uncontested. A counter-argument is based on Art. 62(2) UPCA. Unlike in Art. 62(2) UPCA there is no reference to “judicial discretion” in Art. 63 UPCA. E contrario, it has to be concluded that Art. 63(1) requires injunctive relief to be mandatory in every case.<sup>123</sup> However, this argument is not convincing. Art. 62 UPCA deals with provisional measures. A court order for provisional measures has not examined the details of the case. Thus, the court only can assess the case on the merits preliminary. Consequently, the court has to weigh whether one of the parties can get relief before the case has been examined in detail. This alone is clarified in Art. 62 UPCA.

Another objection, on the other hand, is more significant. Discretion is a concept which civil law jurisdictions are not familiar with.<sup>124</sup> Indeed, it is questionable if the concept of “discretionary remedies” as it has been traditionally applied in common law countries, has been introduced in the UPCA.<sup>125</sup> In its extreme form, a “discretionary remedialism”<sup>126</sup> would eventually leave it to judges to contemplate whether an injunction should be granted or not. In other words: Strong discretion suggests that judges have different options to decide a case, without one option being preferable to another. Even in common law countries such an approach is contentious. Both common law and equitable remedies

<sup>121</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (61).

<sup>122</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 50; admittedly, they point out that unlike the UPCA the IPRED does not have a direct effect.

<sup>123</sup> *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (216).

<sup>124</sup> *Tilmann*, in: Tilmann/Plassmann (eds.), *Unified Patent Protection in Europe. A Commentary*, 2018, Art. 63 UPCA para. 27 et seqq.

<sup>125</sup> See also *Leistner*, GRUR 2022, 1633 (1639).

<sup>126</sup> Cf. *Evans* 23 Syd. L.R. (2001), 463.

shall be granted or refused in accordance with clearly established rules and principles.<sup>127</sup> Such a “rule-based” discretion<sup>128</sup> can be better understood as a reference to the principle of proportionality.<sup>129</sup> A good translation of the concept of discretion is the concept of balancing competing interests (*Interessenabwägung*),<sup>130</sup> i.e. an interpretation of a provision “which allows a fair balance to be struck between the applicable fundamental rights”.<sup>131</sup>

As a result, the application of the proportionality test is subject to full judicial review by higher instances.<sup>132</sup> Or as *Leistner* puts it: Courts have discretion; however, its exercise is determined by the rules of substantive patent law (“gebundenes Entschließungsmessen”).<sup>133</sup> In this way, at the same time, a uniform interpretation of both the provisions on injunctive relief in the IPRED and the UPCA could be reached.

## 2. Injunctions and proportionality

Even without explicitly referring to the concept of discretion, constraints on injunctions may follow from the principle of proportionality.<sup>134</sup> That the principle of proportionality has to be observed<sup>135</sup> follows from the fact that the UPC has to accept EU law. As Art. 20 UPCA states, the Court shall apply Union law

<sup>127</sup> *Burrows*, Remedies for Torts and Breach of Contract, 2009, p. 11.

<sup>128</sup> *Birks*, 20 Oxford Journal of Legal Studies (2000), 1 (2).

<sup>129</sup> *F. Hofmann*, Der Unterlassungsanspruch als Rechtsbehelf, 2017, p. 47 et seq.; *F. Hofmann*, WRP 2008, 1 (6).

<sup>130</sup> *F. Hofmann*, WRP 2008, 1 (6).

<sup>131</sup> Cf. CJEU, 27.03.2014 – C-314/12 para. 46 – UPC Telekabel.

<sup>132</sup> Cf. *Stierle/F. Hofmann*, GRUR Int. 2022, 1123 (1127 and 1129).

<sup>133</sup> *Leistner*, GRUR 2022, 1633 (1639 et seq.).

<sup>134</sup> Further restrictions follow from EU Competition Law (particularly relevant for SEPs which are not discussed in this study) and the principles laid down in Art. 3(2) IPRED, e.g. prohibition of abuse of rights, cf. *Leistner/Pless*, in: Contreras/Husovec (Eds.), Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring, Cambridge University Press, 2022, p. 51.

<sup>135</sup> *Leistner*, GRUR 2022, 1633 (1639); dissenting *Tocherrmann*, ZGE/IPJ 2019, 257 (273).

in its entirety and shall respect its primacy.<sup>136</sup> When hearing a case brought before the UPC, the Court shall base its decisions *inter alia* on Union law. Anyway, according to Art. 1(2) UPCA the UPC shall be a court common to the contracting Member States and thus subject to the same obligations under Union law as any national court of the contracting Member States. Thus, particularly, the remedial provision of the UPC have to comply with the Enforcement Directive.<sup>137</sup> The principles figured out with respect to the Enforcement Directive, first and foremost the principle of proportionality, are applicable likewise.<sup>138</sup> This is all the more true as the principle of proportionality is derived from fundamental rights, i.e. EU primary law. In other words, the principles established (by the CJEU) within “European Law of Remedies” can serve as guidelines for the “discretion” purported by Art. 63(1) UPCA.<sup>139</sup> The discretion is not unlimited but “guided and trammelled by the substantive law rights and the overriding context of Union law”.<sup>140</sup> Probably, TRIPS too requires injunctive relief to be proportionate.

Irrespective of the general legal framework, the UPCA itself refers to “proportionality”.<sup>141</sup> First, the preamble of the UPCA points out that the UPC should be devised to ensure expeditious and high-quality decisions, striking a fair balance between the interests of right holders and other parties and “taking into

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<sup>136</sup> For further details *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 48 et seq.

<sup>137</sup> *Leistner*, GRUR 2022, 1633 (1635); *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60).

<sup>138</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 52.

<sup>139</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 10 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>140</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 11 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“Contrary to some authors, Art. 63 UPCA opens discretion for the Court in its decision whether and when to grant injunctive relief. However, this is not an unlimited leeway of discretion. Instead, it is limited and guided by the substantive law principles and rights of the UPCA as well as by Union law.”).

<sup>141</sup> Even if Art. 63 UPCA does not determine the question of proportionality comprehensively, the provisions would have to be interpreted by reference to the traditions of the Member States, which have been shaped by the Enforcement Directive, *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 51.

account the need for proportionality and flexibility”. Secondly, Art. 42 UPCA (“proportionality and fairness”) contains a commitment to the principle of proportionality. Although remedies are part of substantive law, they can be understood as “law enforcement” which is clearly addressed by Art. 42 UPCA.<sup>142</sup>

Ultimately, in recent years, the literature has argued in detail that restrictions at the enforcement level are necessary. Restrictions at the level of enforcement are persuasive from a doctrinal,<sup>143</sup> teleological<sup>144</sup> and law and economics viewpoint.<sup>145</sup>

Against this background, references to discretion are nothing but references to the proportionality principle (see above, II.3.a). Discretion suggests that a judge can “freely” decide, at least can choose between different options. Proportionality is an open standard but, the balancing of interests has been conducted in the “right” way. Proportionality is rule-based.<sup>146</sup> Proportionality is much more in line with e.g. the German approach of “claims” and the European Concept of striking a fair balance between the applicable fundamental rights.<sup>147</sup>

To sum up, Art. 63(1) UPCA asserts two aspects: First, the UPC has the power to grant an injunction; secondly the UPC must not issue an injunction in every single case.<sup>148</sup> All in all, the prevailing view accepts that there is a proportionality

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<sup>142</sup> Some authors doubt whether namely Art. 41(3) UPCA regulates specific remedies or rather requires the procedures to be fair and equitable, *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 52. Furthermore, Art. 42(2) UPCA should be “differentiated from proportionality in terms of substantive law on remedies”.

<sup>143</sup> *F. Hofmann*, *Der Unterlassungsanspruch als Rechtsbehelf*, 2017, p. ### et seqq.

<sup>144</sup> *Leistner*, GRUR 2022, 1633 (1640.); *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 5 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>145</sup> Cf. *Cotter*, ZGE/IPJ 2019, 293 (299 et seq.).

<sup>146</sup> See *Sikorski*, IIC 2022, 31 (47 et seq.). He highlights that “Formulating a list of factors that could help courts in their application of the principle of proportionality to injunctive relief in patent law would certainly improve the certainty and predictability of outcomes in patent disputes.” (p. 55).

<sup>147</sup> Cf. CJEU, 27.03.2014 – C-314/12 para. 46 – UPC Telekabel.

<sup>148</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60).

test. Ultimately, it follows from primary EU law that proportionality is the “central guiding criterion” for the exercise of “discretion” pursuant to Art. 63 UPCA.<sup>149</sup> The crucial question is how to determine proportionality. We will explore that in more detail in the next paragraph.

#### IV. Degree of flexibility

The degree of flexibility varies from one jurisdiction to another. At one end of the scale, the USA can be located. The Supreme Court requires that courts apply the traditional equitable four-factor analysis when assessing the appropriateness of injunctive relief. As the adequacy of an injunction has to be established in any given case, practically, injunctions are refused in a material number of cases, particularly those cases involving PAEs.<sup>150</sup> It can be said, courts in the US have “strong discretion”. At the other end of the scale, at least until the latest patent reform in 2021, particularly Germany and some other European Countries like the Netherlands, France or Italy could be found. If an infringement had occurred, injunctions were considered as an “automatic” consequence.<sup>151</sup> Once an infringement was established an injunction was granted as a matter of course. Before amending the provision on injunctive relief with a proportionality test (cf. Sec. 139(1)(3) German Patent Act) namely the German Federal Court (BGH) framed constraints on injunctions as “extreme exceptions”.<sup>152</sup>

Materials on the Rules of Procedure could prove that comparably high demands are to be made on the refusal of injunctions under Art. 63(1). The 16<sup>th</sup> draft of

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<sup>149</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 14 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>150</sup> *Contreras/Husovec*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 319; attitudes to automatic injunctions are evolving, cf. *Bennett/Roux-Vaillard/Mammen*, *ManagingIP.Com*, 2015, p. 22.

<sup>151</sup> *Contreras/Husovec*, in: *Contreras/Husovec* (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 313 et seqq.; see also *Stierle*, GRUR 2019, 873.

<sup>152</sup> Critically *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60) with reference to BGH 10.5.2016 – X ZR 114/13 – Wärmetauscher (“there would have been a strong case for granting a ‘use by’ period”); supporting the strict test applied by the BGH *L. Tochtermann*, ZGE/IPJ 2019, 257 (269) (exception in “extreme cases”).

the Rules of Procedure provided for the option on damages in lieu of an injunction similar to Art. 12 IPRED. This regulation was removed in the 17<sup>th</sup> draft. It was stated that where a court finds an infringement of a patent, it will under Art. 63 UPCA give order of injunctive relief. Only under “very exceptional circumstances” will it use its discretion and not give such an order. This should follow from Art. 25 of the Agreement which recognises the right to prevent the use of the invention without the consent of a patent proprietor as the core right of the patentee.<sup>153</sup> The reference to “very exceptional cases”,<sup>154</sup> however, cannot be understood to mean that injunctive relief must always be granted in practice.

Firstly, this would not mirror the discussions on proportionality within the last decade. Particularly Germany, famous for injunctions being issued as matter of course, has accepted that injunctive relief is not always appropriate.<sup>155</sup> Experts observe that the flexible approach of common law jurisdictions and the rigid approach of civil law jurisdictions have converged in recent years.<sup>156</sup> An interpretation according to which an injunction is only awarded in “very exceptional

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<sup>153</sup> Cf. *Sonntag*, in: Bopp/Kirchner, Handbuch Europäischer Patentprozess, 2023, § 13 para. 256 et seq.; see also *Nieder*, GRUR 2023, 995; *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (218 et seq.).

<sup>154</sup> *Leistner/Pless* also draw the conclusion that in principle injunctive relief has to be granted by the court, except that under exceptional circumstances, where the granting of an injunction is clearly disproportionate, it can execute its discretion to deny an injunction, *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 50 et seqq; see also *Leistner*, GRUR 2022, 1633 (1640) (“The discretion is guided and limited to the effect that a restriction or even a refusal of the final injunction can only be considered in particularly exceptional cases, in which the unrestricted issuance of an injunction on the part of the infringer would lead to a particular hardship that is disproportionate, also taking into account the normal patent exploitation and the legitimate interests of the patent proprietor.”).

<sup>155</sup> The patent reform not only codified existing case law but went further, *Stierle/F. Hofmann*, GRUR Int. 2022, 1123 (1126).

<sup>156</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (58 et seq.).

cases” would ignore this development. Indeed, several scholars writing on injunctive relief in patent cases support a sort of “middle way” between “strong” and “weak” constraints on injunctions within the UPC.<sup>157</sup>

Furthermore, such a compromise would reconcile different approaches in different countries.<sup>158</sup> Even jurisdictions traditionally favouring “automatic injunctions” could accept a “higher degree” of proportionality as long as it is undisputed that, first, injunctions are awarded in “normal” cases and, secondly, the denial of injunctive relief is “rule-based”. As mentioned, in recent years such a convergence could indeed be observed.<sup>159</sup>

Most importantly, the case law of the CJEU illustrates that proportionality is more than “lip service”. Taking into account that proportionality (but not “judicial discretion”) is a key feature of the “European Law of Remedies”, the best is indeed to opt for a middle way regarding the degree of flexibility within the UPC.<sup>160</sup> Ironically, the practice of the English courts could serve as a model.<sup>161</sup> The judiciary applies a sort of “grossly disproportionate-test”.<sup>162</sup> Thus, although injunctions are awarded on a regular basis (“a general injunction to restrain future infringements is the normal remedy for the patentee”),<sup>163</sup> it is possible to plead for an exception (“The burden is on the defendant to give reasons why such an injunction should not be granted”).<sup>164</sup> Exceptions are not only available

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<sup>157</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (“I will argue that the UPC should steer a middle course”); see also *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 33.

<sup>158</sup> Cf. *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 11 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>159</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60).

<sup>160</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58.

<sup>161</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62); for an overview of relevant English case law *Alexander*, IPJ/ZGE 2019, 279; *Bently/Arnold*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 261.

<sup>162</sup> *Navitaire Inc. v. easyJet Airline Co. Ltd (No. 2)* [2005] EWHC 282 (Ch) para. 104; *HTC Corporation v Nokia Corporation (No. 2)* [2014] R.P.C. 30 para. 32; see also *Leistner*, GRUR 2022, 1633 (1635).

<sup>163</sup> *Evalve v. Edwards Lifesciences* [2020] EWHC 513 (Pat) para. 73.

<sup>164</sup> *Evalve v. Edwards Lifesciences* [2020] EWHC 513 (Pat) para. 73.

in very exceptional cases but in cases where the defendant shows that depending on the facts of the case particularities can be established.<sup>165</sup> Indeed, the mere fact that an exclusive right bars third parties from the use of the subject matter is not sufficient.<sup>166</sup> Or as Sec. 139(1) German Patent Act puts it: An injunction is not granted if an unjustified hardship occurs “which is not justified by the exclusive right.” The requirements therefore are neither particularly stringent nor particularly lenient.

## V. Conclusion

“Discretion” means that it is necessary to balance the competing interests. This is a matter of substantive law. A certain degree of flexibility is inherent in the UPCA. Depending on the facts of an individual case, it is possible to deny applications for injunctive relief. The best would be if the UPC tried to steer a middle course between “weak” and “strong” flexibility. Firstly, such an approach could be a good compromise between different jurisdictions with different traditions on injunctive relief. Secondly, the case law of the CJEU supports the view that flexibility must be more than “lip service”. While mere inconvenience to the defendant (“hardship (...) which is not justified by the exclusive right”)<sup>167</sup> does not justify denying injunctive relief, specifics of the case (e.g., lack of fault combined with the risk of substantial harm to the injured party, see below, III.2.) must be seriously considered.

In the end this means: If issuing an injunction in an individual case leads to a particular, disproportionate hardship for the patent infringer, even taking into account the normal patent exploitation in the relevant field and the legitimate

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<sup>165</sup> Possibly slightly stricter *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 4 and p. 11 et seq. (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“Hence, in cases of direct or indirect patent infringement, the principle of enforcement related proportionality only comes into play in exceptional situations, where in light of all the circumstances of the particular case the hardships on the defendant (or third parties) are grossly disproportionate compared to the legitimate interests of the patent holder, even taking into account the normal practice of exploiting the exclusive right.”).

<sup>166</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62).

<sup>167</sup> Cf. Sec. 139(1) German Patent Act.



interests of the patent proprietor, an injunction may have to be limited or refused on the basis of balancing the conflicting rights and interests, taking into account the specific function of patent law as well as the principle of proportionality under European law.<sup>168</sup> We will explore this further within the next paragraph.

### C. Application of the principle of proportionality

A key feature of proportionality considerations is that generally valid rules cannot be established.<sup>169</sup> It is always necessary to analyse the specifics of each case in detail. In this vein, the European Commission reminds us, in order to ensure the balanced use of the civil Intellectual Property rights enforcement system, that the competent judicial authorities should generally conduct a case-by-case assessment when considering the grant of the measures, procedures and remedies provided for by IPRED.<sup>170</sup>

Nonetheless, in practice typical scenarios have been described in which injunctive relief could be disproportionate. We will outline them here shortly (1). Additionally, we try to carve out some factors, such as a potential privilege for (more or less) innocent infringers, which might *inter alia* have the effect that injunctive relief is restricted (2.). In all cases, proportionality can have as a consequence that injunctions need to be tailored. More precisely, injunctions can be denied, delayed or narrowly scoped. First and foremost, use-by-periods appear to be a means to balance the competing interests.<sup>171</sup> Paying damages in lieu of an injunction can also be a consequence of denying injunctive relief (3.).

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<sup>168</sup> *Leistner*, GRUR 2022, 1633 (1638).

<sup>169</sup> *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388, 392, 393 (2006) (“But traditional equitable principles do not permit such broad classifications.”); cf. *Stierle/F. Hofmann*, GRUR Int. 2022, 1123 (1127 et seq.).

<sup>170</sup> Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights COM(2017) 708 final, p. 9 et seq.; see also *Osterrieth*, GRUR 2018, 985 (989 et seq.); for the proportionality test in German patent law, cf. BT-Drs. 19/25821, p. 53.

<sup>171</sup> Cf. *Leistner*, GRUR 2022, 1633 (1641).

## I. Typical scenarios

In recent years, several scenarios have been described in which injunctive relief might be disproportionate.<sup>172</sup> A detailed illustration is also provided by the explanatory memorandum to the German patent reform.<sup>173</sup> Although German national law is not binding for the UPC, the Court will for sure consider this modern approach towards patent remedies. Although we argue that flexibility is inherent in the UPCA, it is also crystal clear that exclusive rights are regularly enforced via injunctions. It is also clear that exclusive rights constitute a certain hardship for third parties. That third parties generally are excluded from using the subject matter of an IP right is justified, because exclusivity is a means to foster innovation etc.<sup>174</sup>

### 1. PAE

First of all, claimants who do not practice the patent might not be eligible for injunctive relief. PAE are primarily interested in money, but do not have a genuine interest in defending the exclusive use of the technology patented. In these cases, the interest of the claimant is usually directed to the conclusion of a licensing agreement and not to the protection of own development and production activities.<sup>175</sup> Besides not being involved in the market for products, PAE do not risk any counterclaims for infringing patents on their own.<sup>176</sup> In such cases, injunctions can be abused as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.<sup>177</sup> Particularly, clearly exaggerated license claims which are to be enforced by a claim for injunctive relief can speak against the granting of injunctive relief in such constellations.<sup>178</sup>

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<sup>172</sup> Cf. *Stierle*, GRUR 2019, 873 (875 et seq.); see also *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 43 et seq.

<sup>173</sup> BT-Drs. 19/25821, p. 52 et seq.

<sup>174</sup> See also *Leistner*, GRUR 2022, 1633 (1639).

<sup>175</sup> Explanatory memorandum German patent reform, BT-Drs. 19/25821 p. 53.

<sup>176</sup> See also *Stierle/F. Hofmann*, GRUR Int. 2022, 1123 (1128).

<sup>177</sup> Cf. *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388, 392, 393 (2006).

<sup>178</sup> Explanatory memorandum German patent reform, BT-Drs. 19/25821 p. 53.

Nonetheless, it is necessary to closely analyse the facts of the case. As e.g. universities are involved in technology transfer they have a legitimate interest in defending their patents although they do not practice the patent themselves.<sup>179</sup>

*Stierle* suggests that awarding injunctive relief for patents which are not exploited at all might lead to a contradiction to the aims of patent law. The purpose of patent law is not only to stimulate inventions. Rather, the inventions should also be converted into marketable products, i.e. innovations. The latter is frustrated if a patent is not practised at all. Absent any specific justification, enforcing a patent in such a case might constitute an abuse of law.<sup>180</sup>

## 2. Complex products

Another scenario in which injunctive relief can be disproportionate are patents in complex products.<sup>181</sup> If the infringing component cannot easily be removed, de facto an injunction results in a stop of sale of the entire product. Even though a large number of patents can be found in most modern products, the “technical value” of the patent can be disproportionate to the bargaining power conferred by a potential injunction.<sup>182</sup> When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement.<sup>183</sup> In other

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<sup>179</sup> Cf. *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388, 392, 396 (2006); clearly, an entire group of patentholders is not excluded as such from injunctive relief, *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 53.

<sup>180</sup> *Stierle*, GRUR 2019, 873 (875 et seq.); *Stierle*, ZGE/IPJ 2019, 334 (347 et seq.); *Stierle*, *Das nicht-praktizierte Patent*, 2017, p. 251 et seq. and p. 262 et seq.; see also *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 16.

<sup>181</sup> *Stierle*, GRUR 2019, 873 (876); explanatory memorandum BT-Drs. 19/25821, p. 54; *Sikorski*, IIC 2022, 31 (56 et seq.).

<sup>182</sup> *Osterrieth*, GRUR 2018, 985.

<sup>183</sup> *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388, 392, 396 (2006); *Leistner*, *Festschrift (Liber amicorum)* for Reto M. Hilty, p. 6 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“This is particularly relevant with regard to complex products with large amounts of electronic or computer-related components delivered by independent suppliers. If in such cases the infringer ex ante acted in good faith, and a modification

words: If the economic potential of a patent is disproportionate to the economic loss for the infringer in the case of rigid enforcement, enforcement can be abusive.<sup>184</sup> First and foremost, if the patent has been overlooked despite a “freedom to operate”-analysis (which cannot always be adequately performed for certain products given the vast number of patents that are potentially relevant) or an “equivalent infringement” was not foreseen despite due diligence, a threatened sales stop of the entire product is out of proportion to the true value of the infringed patent.<sup>185</sup> Are switching costs out of scale?<sup>186</sup> Injunctive relief might be unreasonable if costs for “inventing around” are high or the production has to be stopped for a significant period of time.<sup>187</sup> Of course, the fact that the infringed patent is part of a complex product in its own right is not a reason to deny injunctive relief. Patents in smaller components can also be regularly enforced.

### 3. Others

Further scenarios can be easily established. Recently, the relevance of public interest has been discussed.<sup>188</sup> The amendment of the German Patent Act explicitly refers to the interests of third parties (e. g. patients who benefit from patented medical devices) as a factor within the proportionality test (“unjustified hardship for the infringer or third parties”).<sup>189</sup>

## II. Factors which must be taken into account

As mentioned, it is difficult to precisely describe scenarios in which injunctive relief shall be denied. It is always necessary to closely analyse the specific facts

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ex post is technologically or economically impossible, this might lead to a hold-up situation resulting in excessive payments, far exceeding the actual value of the underlying patent protecting but a small component of the overall product.”).

<sup>184</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 32.

<sup>185</sup> Cf. *Stierle*, GRUR 2019, 873 (876).

<sup>186</sup> *F. Hofmann*, ZGE/IPJ 2019,249 (255); cf. *HTC Corporation v Nokia Corporation* (No. 2) [2014] R.P.C. 30 para. 62.

<sup>187</sup> Explanatory memorandum BT-Drs. 19/25821, p. 54.

<sup>188</sup> Cf. *Stierle/Hofmann*, GRUR Int. 2022, 1123; *Stierle*, GRUR 2019, 873 (878 et seq.).

<sup>189</sup> For more details, see explanatory memorandum BT-Drs. 19/25821, p. 54 et seq.

of the individual case. Nonetheless, it is possible to name factors which play a significant role in deciding whether injunctive relief has to be denied.<sup>190</sup> In line with *Obly*, hereby, the strength of one factor can outweigh the weakness of another factor.<sup>191</sup>

## 1. Fault

### a) Arguments as to why fault matters

First of all, the degree of fault (“blameworthiness”) can be a factor relevant within the proportionality test.<sup>192</sup> Unlike damages, the award of an injunction does not depend on the fault of the infringer. This traditional view can be challenged with several arguments.

First, modern legislation weakens the irrelevance of the fault requirement. For example, Art. 13 Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure requires taking into account several factors to assess the proportionality of an injunction. According to Art. 13(1)(c) Directive (EU) 2016/943, the conduct of the infringer in acquiring, using or disclosing the trade secret has to be taken into account when considering an application for the adoption of an injunction. This is nothing less than a shift away from the dogma of no-fault injunctive relief.<sup>193</sup> The CJEU also referred to the conduct of the infringer.<sup>194</sup> With respect to the Unfair Commercial Practices Directive<sup>195</sup> the Court stated that it is for the Member States to provide for an appropriate

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<sup>190</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62 et seq.); *Sikorski*, IIC 2022, 31 (53 et seqq.).

<sup>191</sup> *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62 et seq.).

<sup>192</sup> Explanatory memorandum BT-Drs. 19/25821, p. 54; *Sikorski*, IIC 2022, 31 (56 et seq.).

<sup>193</sup> *F. Hofmann*, WRP 2018, 1 (6 et seq.).

<sup>194</sup> CJEU, 16.4.2015 – C-388/13 – Nemzeti Fogyasztóvédelmi Hatóság/UPC Magyarország Kft.

<sup>195</sup> Directive 2005/29/EC of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council (‘Unfair Commercial Practices Directive’).

system of sanctions with regard to professionals who employ unfair commercial practices. It is necessary to ensure that those sanctions comply, in particular, with the principle of proportionality. Most importantly the court pointed out: It is in this context that due consideration could be taken of factors such as the frequency of the practice complained of, whether or not it is intentional, and the degree of harm caused to the consumer.<sup>196</sup> A look at the *aquis communautaire* confirms that fault also plays a role for injunctive relief. In this vein, recital 17 IPRED refers to subjective requirements. Accordingly, the measures, procedures and remedies provided for in the IPRED should be determined in each case in such a manner as to take due account of the specific characteristics of that case, including the specific features of each intellectual property right and, where appropriate, “the intentional or unintentional character of the infringement.” This consideration is not tailored to claims for damages, but requires general acceptance. This view is supported by the Commission.<sup>197</sup> Last but not least, in literature, the “infringer’s level of negligence” is recognised as a factor which has to be taken into account, as well.<sup>198</sup> While the absence of fault is not in itself a reason to deny injunctive relief,<sup>199</sup> the hardship caused by an injunction is the less reasonable for the infringer the lower the degree of fault has been.

Secondly, traditionally, the effects of injunctions have been considered less severe than those of damages. Thus, unlike damages, injunctive relief does not depend on fault.<sup>200</sup> In fact, an injunction can be much harsher than damages. Particularly, the costs to invent around or to switch production can be prohibitive. Not without reason, injunctive relief has been compared to punitive damages.<sup>201</sup> The rationale for the irrelevance of the fault requirement is not convincing in the field of patent law. First, cases are rather complex from both a legal and factual point. Secondly, the hardship caused by injunctions is particularly great

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<sup>196</sup> CJEU, 16.4.2015 – C-388/13 para. 58 – Nemzeti Fogyasztóvédelmi Hatóság/UPC Magyarország Kft.

<sup>197</sup> Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights COM(2017) 708 final, p. 9.

<sup>198</sup> *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 32.

<sup>199</sup> Cf. CJEU, 14.12.2006 – C-316/05 – Nokia.

<sup>200</sup> Cf. *F. Hofmann*, WRP 2018, 1 (6).

<sup>201</sup> *Heald*, Illinois Public Law and Legal Theory Research Papers Series No. 10–38 (<http://papers.ssrn.com/abstract=1851681>).

(e.g. “switching costs”). Against this backdrop it is not significant whether the infringing component is essential for the functioning of the entire product or not.<sup>202</sup>

Our thesis therefore is: The degree of fault is a decisive factor within the proportionality test. The defendant can bring forward arguments that show that his fault with regard to the patent infringement is not given or is low. As a matter of principle, there should be an assumption that fault is given. Such a presumption is, however, rebuttable. Of course, after the notice of the patent infringement, the infringer has to demonstrate particular efforts to remedy the infringement, if possible, by switching to a non-infringing alternative. In other words, the infringer loses his privilege if he fails to take steps to remedy the patent infringement as soon as possible.

Conversely, careless behaviour on the part of the patent owner can also play a role, e.g. the patent proprietor delays a notification of the infringement and, as a result, switching costs for the infringer increase.<sup>203</sup>

#### b) Standard of negligence

Importantly, the requirements for a lack of fault must not be excessive. Unfortunately, in IP we witness a strict negligence standard in Europe. Non-negligent behaviour in that sense is hard to imagine.<sup>204</sup> Nonetheless, it has to be acknowledged that despite a careful “freedom to operate”-analysis, not every single (trivial) patent can be detected.<sup>205</sup> Against the backdrop of patent thickets, it is a matter of fact that patents can be overlooked – even by diligent producers. Indeed, the CJEU recognizes (in the context of standard essential patents) that given “the large number of SEPs composing a standard such as that at issue in

<sup>202</sup> But see BGH 10.5.2016 – X ZR 114/13 para. 52 – Wärmetauscher; critically *F. Hoffmann*, ZGE/IPJ 2019, 249 (255).

<sup>203</sup> Explanatory memorandum BT-Drs. 19/25821, p. 54; *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62); *Sikorski*, IIC 2022, 31 (56 et seq.).

<sup>204</sup> Obviously, this was one of the reasons why the rule for damages in lieu was deleted *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 54.

<sup>205</sup> Cf. explanatory memorandum BT-Drs. 19/25821, p. 54; *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62); *Sikorski*, IIC 2022, 31 (48).

the main proceedings, it is not certain that the infringer of one of those SEPs will necessarily be aware that it is using the teaching of an SEP that is both valid and essential to a standard.”<sup>206</sup> This applies all the more with regard to equivalent violations.<sup>207</sup>

### c) Conclusion

In any case, the aforementioned considerations should apply even if the degree of fault is low. This is the case if the infringer has taken reasonable precautions to prevent patent infringements. The lower the degree of fault, the more the negative consequences of an injunction for the infringer should be taken into account.

### 2. Interest in injunctive relief

Clearly, the proportionality test demands to balance the competing interest. Among other things, the interest of the injured party in the injunction must be taken into account. Particularly, PAE often do not have a genuine interest in defending the option of exclusive use. In fact, their interest is limited to adequate remuneration. If this interest is satisfied by damages (see below), an injunction is not necessary and, as a consequence, not proportionate.<sup>208</sup>

### 3. Economic consequences of an injunction

It has already been argued that injunctions can cause hardship for the defendant. Indeed, costs for “inventing around” or switching production can be out of scale. Costs of destroying existing products must also be taken into account. Of course, it is a natural consequence of an exclusive right that third parties are excluded from using the subject matter. In cases where an infringement occurred unintentionally, however, the economic consequences of injunctions have to be weighed.<sup>209</sup> Patent remedies must not cause “over-prevention”.

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<sup>206</sup> CJEU, 16.7.2015 – C-170/13 para. 62 – Huawei.

<sup>207</sup> Cf. *Stierle*, GRUR 2019, 873 (876); *Osterrieth*, GRUR 2018, 985.

<sup>208</sup> Cf. explanatory memorandum BT-Drs. 19/25821, p. 53; *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62).

<sup>209</sup> Cf. explanatory memorandum BT-Drs. 19/25821, p. 54; *Sikorski*, IIC 2022, 31 (55 et seq.).



#### 4. Purpose of patent law

Of particular importance are the effects of injunctions on the objectives of patent law. In general, exclusivity is the well-deserved reward for the patent proprietor for disclosing the invention. However, if the enforcement of rights is in conflict with the purpose of the patent right, this may constitute an abuse of rights.<sup>210</sup> This thought was carefully elaborated by *Martin Stierle* in his book on “non-practised” patents.<sup>211</sup> If patents are to foster inventions and, similarly, the application of inventions, a patent which is not exercised cannot be enforced with an injunction unless there is a legitimate reason (see above III.1.a). If the enforcement of a patent has a welfare diminishing effect, injunctive relief can be disproportionate.<sup>212</sup> Conversely, the purpose of patent law, particularly to foster innovation, is regularly best served by granting an injunction in the case of infringement.

#### 5. Compensation

Another factor which might be relevant for tailored injunctions is whether the right holder is compensated for the denial of injunctive relief.<sup>213</sup> The UPCA does not explicitly provide for *damages in lieu of an injunction*.<sup>214</sup> A reference to this was found in earlier drafts of the Rules of Procedure, but not in the final

<sup>210</sup> *Sikorski*, IIC 2022, 31 (39, 51 et seq. and 55.).

<sup>211</sup> *Stierle*, Das nicht-praktizierte Patent, 2018; for a summary see *Stierle*, GRUR 2019, 873 (875 et seq.); see also *F. Hofmann*, GRUR 2020, 910 (applying this principle to design law and copyright law).

<sup>212</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 6 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

<sup>213</sup> Cf. *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 33.

<sup>214</sup> *Leistner*, GRUR 2022, 1633 (1641); *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 53.

version.<sup>215</sup> Nonetheless, this notion remains relevant.<sup>216</sup> When balancing the competing interest, it can be taken into account that the injunction is only suspended if the right holder in turn is compensated (well known in common law countries as the “adequacy test”<sup>217</sup>).<sup>218</sup> Compensation can be understood as a milder means to achieve a balance between the competing interests of the patent proprietor, the infringer and the public.<sup>219</sup>

In our view, there are two options for the Court to award payments in lieu of an injunction in order to balance the interests between patent proprietor and infringer:

First, it is argued that the principle of proportionality is a sufficient legal basis for an order of compensation.<sup>220</sup> Proportionality may even demand that the patent proprietor is compensated irrespective of the fault of the infringer.<sup>221</sup> In other words: The requirements for denial of injunctive relief on the grounds of disproportionality are all the lower, the more the interests of the patent proprietor are served by the payment of remuneration. Comparative law supports this

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<sup>215</sup> Rule 118.2 UPCRoP (16th Draft) reads as follows: “Without prejudice to the general discretion provided for in Articles 63 and 64 of the Agreement, in appropriate cases and at the request of the party liable to the orders and measures provided for in paragraph 1 the Court may order damages or compensation to be paid to the injured party instead of applying the orders and measures if that person acted unintentionally and without negligence, if execution of the orders and measures in question would cause such party disproportionate harm and if damages or compensation to the injured party appear to the Court to be reasonably satisfactory. In the 17th Draft this rule was removed. It is not found in the final version either; see also *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (217 et seq.).

<sup>216</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (62); *Ohly*, GRUR 2021, 304 (308 et seq.); *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 12 et seqq. (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>); *Leistner*, GRUR 2022, 1633 (1641 et seq.).

<sup>217</sup> Cf. *HTC v. Nokia* [2013] EWHC 3778 para. 8.

<sup>218</sup> *Leistner*, GRUR 2022, 1633.

<sup>219</sup> *Stierle*, Das nicht-praktizierte Patent, 2017, p. 276; see also *F. Hofmann*, WRP 2018, 1 (6 et seq.).

<sup>220</sup> *Ohly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (63).

<sup>221</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 14 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>).

argument.<sup>222</sup> That Rule 118.2 of the Rules of Procedure (RoP) with a similar approach was deleted is not a convincing counter-argument. The scope of this rule was rather narrow, so that the practical effect was in question.<sup>223</sup> Most importantly, the principle of proportionality, derived from primary EU law and the basis for damages in lieu, cannot be overridden by mere “rules”.

Secondly, the award of damages is – by definition (see Art. 68 (2)(1) UPCA) – generally sufficient to compensate the infringer. However, damages are awarded retrospectively so that there is usually a time gap between the infringing use and the payment of adequate compensation. The patent proprietor has to accept the use of his patent without payment and, by that, has to bear the insolvency risk of the infringer. The UPC RoP provide a solution to that problem as the Court may award the payment of interim damages and may make the stay or denial of an injunction conditional on compliance with the terms of the interim award of damages (see below Part 2 II).

This is without prejudice to the final setting damages.<sup>224</sup>

### III. Consequences of disproportionality

If an injunction is disproportionate, injunctive relief can be denied. An entire exclusion of injunctive relief is, however, not necessary in every case.<sup>225</sup> The application of the proportionality test is not limited to two options. Injunctive relief can be tailored.<sup>226</sup> In many cases, a stay of an injunction can mitigate the

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<sup>222</sup> Cf. Sec. 139(1)(4) German Patent Act; *Evalue v. Edwards Lifesciences* [2020] EWHC 513 (Pat) para. 73.

<sup>223</sup> Cf. *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 13 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>); *Reetz/Pecnard/Fruscalzo/van der Velden/Marfé*, GRUR Int. 2015, 210 (218).

<sup>224</sup> But see *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 15 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>) (“This compensation represents an independent compensation for the non-granting of an injunction (...) and thus is to be added on top of the mere claim for damages”).

<sup>225</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 12 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>); *Obly*, GRUR 2021, 304 (308).

<sup>226</sup> *Sikorski*, IIC 2022, 31 (58).

hardship caused by an injunction without losing sight of the interests of the rights holder.<sup>227</sup> E.g. “use-by-periods” may enable the infringer to replace infringing components in complex products. It follows from the principle of proportionality that a stay of an injunction as a “minus” to an injunction is preferable to a permanent stay if possible.<sup>228</sup>

Since the injunction is only temporarily excluded and the patent proprietor is remunerated at the same time, the requirements for a stay should not be excessively high. As mentioned earlier, the exclusion of an injunction can also be modified by the payment of damages in lieu. In the second part of this study, we will outline in more detail how the patent proprietor can be compensated in cases where injunctions are denied. Clearly, the effect of withholding injunctive relief depends on how damages are calculated.<sup>229</sup>

#### IV. Conclusion

Whether injunctive relief is excluded despite an infringement of a patent depends on the circumstances of the individual case. The peculiarities of each case have to be examined carefully. Nonetheless, typical scenarios can be described in which *prima facie* an injunction tends to be disproportionate. Besides, factors such as a low degree of fault can be relevant for the denial of an injunction in an individual case. The purposes of patent law also play a role when assessing if an injunction is reasonable. The interest in injunctive relief can be outweighed (usually temporarily) by remuneration, particularly if the patent is not practised. Furthermore, the economic consequences of an injunction (e.g. switching costs) have to be taken into account as well as remuneration the patent proprietor receives (in lieu of an injunction). Although an injunction remains the default remedy for patent infringements, the defendant must have a realistic chance of convincing the judge that in his case an injunction is unreasonable. As mentioned earlier, the requirements for this must not be excessive. In the sense of a

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<sup>227</sup> Cf. *Edwards Lifesciences LLC v Boston Scientific Scimed Inc* [2018] EWHC 1256 (Pat) para. 64 et seq.

<sup>228</sup> *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 12 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>); *Leistner*, GRUR 2022, 1633 (1641).

<sup>229</sup> *Dinwoodie/Dreyfuss*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 17.

middle way, in cases with peculiarities, but not only in exceptional cases, an injunction can be denied.

## Part 2

# Damages

In this section we will look at how to calculate damages or compensation when an injunction for a patent infringement is denied, delayed or narrowly scoped. We will have a particular focus on scenarios where patents cover only a minor feature of a complex product. We will show that the principle of proportionality applies to damages as well.

### A. Award of damages in cases of denied, delayed or narrowly scoped injunctions, including interim award of damages (R. 119 UPCA Rules of Procedure)

If the Court has found the product to be infringing but has denied, delayed or narrowly scoped the injunction, it has no impact on the (il)legality of the past and the future use of the patented invention. In other words: The denial of an injunction does not justify the infringement but merely suspends the exclusivity of the patent.<sup>230</sup>

As the use of the patented invention is still an infringement, the patent proprietor is entitled to damages for the infringing use due to Art. 68 (1) UPCA.<sup>231</sup> After the ruling of the Court that the product infringes the asserted patent, infringers knowingly<sup>232</sup> engage in further patent infringing activities if they continue to

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<sup>230</sup> See also *Hoyng/Dijkman*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p.

<sup>231</sup> *Obly*, *Stockholm Intellectual Property Law Review* 5 (2022), 58 (63).

<sup>232</sup> Similarly *Leistner/Pless*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 46. Differently, because the continued use was permitted by a court-ordered stay: *Amado v. Microsoft Corp.*, 517 F.3d 1353 (1362) (Fed. Cir. 2008).

produce and/or sell the product.<sup>233</sup> Therefore, the infringer owes damages of at least a reasonable royalty (Art. 68 (3)(b) UPCA)<sup>234</sup> to the patent proprietor. Nevertheless, if the limitation, stay or denial of the injunction by the Court is considered to eliminate the fault of the infringer, compensation for the patent proprietor can be based on Art. 68 (4) UPCA. It is usually calculated on the basis of a reasonable royalty.<sup>235</sup>

The award of damages is – by definition (see Art. 68 (2)(1) UPCA) – generally sufficient to compensate the infringer for the infringing use.<sup>236</sup> However, as damages are rewarded retrospectively there is usually a time gap between the infringing use and the payment of adequate compensation. During that time, the patent proprietor has to accept the use of his patent without payment and, by that, has to bear the insolvency risk of the infringer.

To close the time gap and to ensure proportionality towards the patent proprietor,<sup>237</sup> the Court may order an interim award of damages under R. 119 UPC Rules of Procedure (RoP).<sup>238</sup> The conditions of that interim award are at the discretion of the Court ('subject to any conditions that the Court may order'). Thereby, it can simulate a provisional reasonable licence agreement:

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<sup>233</sup> Whether there were reasonable grounds to know before the ruling of the Court (then: damages under Art. 68 (1) UPCA) or not (then: recovery of profits or compensation under Art. 68 (4) UPCA) is a question of facts.

<sup>234</sup> See below III.3.

<sup>235</sup> See below IV2.

<sup>236</sup> For the question whether the loss of "threat value" has to lead to an elevation of damages, see below III.3.d).

<sup>237</sup> See above Part 1 III.2.e) and *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (63).

<sup>238</sup> For English patent law see *HTC v. Nokia* [2013] EWHC 3778 para. 74 (Pat): "If an injunction were refused, it would have to be on the basis of an order for a running royalty" (but *in casu* denied) and more generally *Coventry & Ors v Lawrence & Anor* [2014] UKSC 13 para. 101 et seqq. (nuisance).

Firstly, it may award an ongoing licence fee of a *prima facie* appropriate amount to be paid by the infringer in an interval that is customary in the respective industry (e.g. monthly or quarterly); it may also address the question of securities.<sup>239</sup>

Secondly, it may make the stay or limitation of the injunction dependent on compliance with the interim award of damages. By that, the Court may close the time gap between the denial of an injunction for future infringements and the payment of damages that are awarded retrospectively after the infringement occurred.

The assessment of the definitive amount of the damages payable by the infringer can be determined in the separate proceedings for determining the amount of damages (R. 125 and seqq. UPC RoP). In any case, the paid provisional damages are deductible from the final award of damages. Damages aim to compensate, not to enrich the infringed party.<sup>240</sup> The same applies if payments in lieu are awarded based on the proportionality principle.<sup>241</sup>

It is unclear whether the Court has discretion to award (definite) damages *pro futuro* “for any future acts of infringement which the defendant might commit”<sup>242</sup> and whether this should be a “running royalty” or a high upfront lump sum.

Looking at it from a practical point of view, the combination of an award of interim damages, a conditional stay/limitation of the injunction based on compliance with the first and a definitive and appealable assessment on the amount of damages after the use of the patent provides the Court with sufficient instruments to simulate the effect of payments in lieu of an injunction.

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<sup>239</sup> Further questions on the terms may arise, see *HTC v. Nokia* [2013] EWHC 3778 para. 14 (Pat).

<sup>240</sup> Cf. Art. 3 (3) and Art. 12 (2) Directive 2014/104 and below II.1., 3. See below III.3.d) for a discussion on dissenting views calling for an elevated payment as compensation for lost “threat value”.

<sup>241</sup> See above Part 1 III.2.e).

<sup>242</sup> As in England *HTC v. Nokia* [2013] EWHC 3778 para. 13-15 (Pat).



## B. Principles of calculating damages (Art. 68 (2) UPCA)

Before answering the question on how to calculate damages in the scenarios under review, we will have a look into the principles of the calculation of damages under the UPCA. As the Court has to interpret the Agreement in an autonomous and uniform way, those principles are an important source of interpretation.

In Art. 68 (2), the UPCA lays down three fundamental principles of calculating damages:

“The injured party shall, to the extent possible, be placed in the position it would have been in if no infringement had taken place. The infringer shall not benefit from the infringement. However, damages shall not be punitive.”

Additional guidelines on how to calculate damages stem from Union law which the Court shall apply in “its entirety and shall respect its primacy” (Art. 20 UPCA).<sup>243</sup> Therefore, principles and jurisprudence regarding Art. 13 Enforcement Directive 2004/48/EC (IPRED) have to be considered.<sup>244</sup> The Union *acquis* in damages law is summarised in the Antitrust Damages Directive 2014/104/EU.<sup>245</sup> Although the Directive primarily harmonises damages for harm caused by infringements of Union competition law, it is still an important legislative source of the Union *acquis* on damages that can be generalised for want of better insights.

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<sup>243</sup> See also *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (60).

<sup>244</sup> This is highlighted by recital 13 of Regulation (EU) No 1257/2012: “(13) The regime applicable to damages should be governed by the laws of the participating Member States, in particular the provisions implementing Article 13 of Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.”

<sup>245</sup> See recital 12: „This Directive reaffirms the *acquis communautaire* on the right to compensation for harm caused by infringements of Union competition law, particularly regarding standing and the definition of damage, as stated in the case-law of the Court of Justice, and does not pre-empt any further development thereof.”

### I. Restoring the status quo ante

Damages shall place the injured party – to the extent possible – in the position it would have been in if no infringement had taken place. This highlights the primary aim of damages to be compensatory. This is in line with the Enforcement Directive which emphasises this principle in recital 26 where it says that the “aim is not to introduce an obligation to provide for punitive damages but to allow for compensation”.

Nevertheless, restoring the status quo ante means that damages have to be awarded “appropriate to the harm actually suffered” by the infringed party as a result of the infringement (Art. 68 (1) UPCA). In the words of the CJEU “all the loss actually suffered” has to be compensated.<sup>246</sup>

The compensation principle has a two-fold effect: On the one hand, it has an increasing function. Damages may not structurally fall short of the damage actually suffered. On the other hand, it has a limiting function. Damages, especially lump-sum damages, may not “exceed the loss actually suffered [...] clearly and substantially”<sup>247</sup>.

### II. Disgorgement of the infringer’s benefits

According to Art. 68 (2)(2) UPCA, the infringer shall not benefit from the infringement. Damages shall disgorge the infringer’s benefits. However, it is unclear how to incorporate this objective into the concept of damages and, in particular, how to reconcile it with the compensation principle. The infringer’s benefits are usually not congruent with the losses and other detriments of the injured party. Consequently, in England and other common law jurisdictions there is a clear distinction between compensatory damages and disgorging account of profits that have a strictly different approach: Damages focus on the detriments to the injured party whereas the account of profits is governed by the question on the benefits of the infringer.<sup>248</sup>

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<sup>246</sup> See e.g. CJEU C-367/15, ECLI:EU:C:2017:36 para. 30 – OTK/SFP.

<sup>247</sup> CJEU C-367/15, ECLI:EU:C:2017:36 para. 31 – OTK/SFP.

<sup>248</sup> See e.g. *Celanese v. BP Chemicals* [1999] RPC 203, 218 f. (Pat)

The same is true for European Law as Attorney General of the CJEU *Kokott* has pointed out:<sup>249</sup>

*“Herein lies the fundamental difference between a claim for compensation and a claim for the restitution of unjustified enrichment. A claim for compensation is primarily concerned not with recovering from the injuring party the excess that has accrued to him but with awarding to the injured party reparation for the loss he has suffered as a result of the injuring party’s unlawful conduct.”*

The confusion on how to reconcile the contradiction between damages and an award of the infringer’s profits is the same as in the Enforcement Directive and has been concisely summarised by *Copinger and Skone James* in their treatise on copyright law where the same problems arise:<sup>250</sup>

*“Obvious difficulties arise from the phrase ‘any unfair profits made by the defendant’. It is not immediately clear why ‘unfair profits’ should be relevant to an assessment of the ‘damages’ which will be ‘appropriate’ to ‘the actual prejudice suffered by the claimant’ and which, according to recital 26 to the Directive, are intended to be compensatory.”*

It is still to be determined whether the ‘award of damages’ under Art. 68 has to be enhanced if the amount payable under a compensatory logic stays short of the infringer’s benefits. It needs to be answered whether the compensatory or

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<sup>249</sup> On damages awarded for competition law violations *GA Kokott*, EU:C:2014:45 para. 78 – *Kone*. Following her: CJEU C-557/12, EU:C:2014:1317 para. 35 – *Kone*; *Saugmandsgaard Øe*, EU:C:2016:73 para. 99, 104 – *Hansson/Grünwald*.

<sup>250</sup> *Copinger on Copyright*, 16<sup>th</sup> Ed., para. 21–194. Similarly *Laddie/Prescott/Vitoria*, Copyright Law, 4<sup>th</sup> Ed., para. 63.24: „How, one may ask, can the making of unfair profits by the defendant amount to prejudice to the claimant – is that not a matter for an account of profits rather than damages?“. The same criticism has been voiced in other EU Member States, cf. *Dreier*, GRUR Int 2004, 706, 709 et seq.; *Peukert/Kur*, GRUR Int 2006, 292, 293; *Mizaras*, GRUR Int 2006, 979, 982; *Gozzi*, GRUR Int 2008, 31, 33; *Benhamou*, IIC 2009, 125, 139; *Cohen/Haugaard*, JIPLP 2010, 372, 377.

the disgorgement principle prevails in case of conflict. This is especially true as Art. 68 (2)(3) UPCA emphasises that damages shall not be punitive.

Traditionally, in the EU and the contracting states of the UPCA damages are dominated by the compensatory principle. Damages shall not lead to overcompensation as it is, for example, laid down in Art. 3 (3) and 12 (2) Directive 2014/104.<sup>251</sup>

One way to disgorge infringer's benefits is to construe the lump sum approach of a "reasonable royalty" in Art. 68 (3)(b) UPCA as a form of "minimum damage". A reasonable royalty represents – according to the licensing practice of the patent proprietor or the market – the share of the user's (and consequently the infringer's) turnover attributable to the use of the patent in use. Consequently, it would deprive the infringers of the advantages of their unauthorised patent use if they had to pay an amount of damages that equals or is higher than a reasonable royalty. Any remaining profits can be attributed to the use of labour, capital, know-how, distribution facilities etc. of the infringers. The infringers also bear the economic risks of the infringing use because they cannot avoid the payment of at least a reasonable royalty with the argument that the whole operation has only caused losses.<sup>252</sup>

Especially in cases of non-practicing entities one can argue that the disgorgement of profits cannot be construed as a form of compensation for negative economic consequences such as the loss of own profits.

Tentatively, we would argue that compensatory damages usually cause a sufficient disgorgement of the infringer's profits.

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<sup>251</sup> Art. 3 (Right to full compensation): „(3) Full compensation under this Directive shall not lead to overcompensation, whether by means of punitive, multiple or other types of damages.” Article 12 (Passing-on of overcharges and the right to full compensation): “(2) In order to avoid overcompensation, Member States shall lay down procedural rules appropriate to ensure that compensation for actual loss at any level of the supply chain does not exceed the overcharge harm suffered at that level.” For further information see *Heinze*, Schadensersatz im Unionsprivatrecht, 2017, p. 616 et seq.

<sup>252</sup> See BGH, 29.07.2009 – I ZR 169/07, GRUR 2010, 239 para. 50 – BTK (trade mark).

### III. Compensatory, not punitive damages

Art. 68 (2)(3) UPCA lays down the fundamental principle of the Contracting Member States and the EU that damages shall not be punitive in nature. The legal nature of a sanction can be determined according to the purpose pursued with it. Therefore, calculation principles that do not primarily serve to compensate the actual damages, but are aimed at sanctioning the infringer, are not in compliance with Art. 68 UPCA.

### IV. Proportionality

The fourth basic principle of calculating damages is proportionality. Although it is not expressly mentioned in Art. 68 UPCA, according to Art. 42 (2) UPCA remedies provided for in the UPCA are ordered in a “fair and equitable manner” and do not “distort competition”. It is further recognised in the jurisprudence of the CJEU that the proportionality requirement in Art. 3 (2) IPRED<sup>253</sup> applies to and limits the scope of damages.<sup>254</sup> For example, according to the Court it would constitute an abuse of rights if the patent proprietor were to claim lump sum damages that “exceed the loss actually suffered [...] clearly and substantially”.<sup>255</sup>

## C. Calculation of damages (Art. 68 (3) UPCA)

Even if an injunction is denied or delayed, the sale of products using the patent still constitutes an infringement (see above II.). As a general rule, the infringer is still obliged to pay damages for the continued use of the patent when the enforceability of the patent as exclusionary right has been *de facto* suspended.

<sup>253</sup> Art. 3 (2) IPRED: “measures shall ... not only be effective and dissuasive but also proportionate”

<sup>254</sup> See further recital 17 and 24 Enforcement-Directive; *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (61). Dissenting view *L. Tochtermann*, ZGE/IPJ 2019, 257 (266).

<sup>255</sup> CJEU C-367/15, ECLI:EU:C:2017:36 para. 31 – OTK/SFP (copyright).

Art. 68 (3) UPCA provides the Court with two alternative approaches to calculate damages. Primarily it shall consider “all appropriate aspects”, especially the “negative economic consequences” of the infringement.<sup>256</sup>

### I. Negative economic consequences

When evaluating the negative economic consequences of a patent infringement, the Court has to assess primarily the “lost profits, which the injured party has suffered” and “any unfair profits made by the infringer”.

The infringed party must present one of two elements to be eligible for the compensation of lost profits: Either it has to exploit the patent and prove that it had sufficient production and distribution capacities to have made the infringer’s turnover but for the infringement.<sup>257</sup> Or the patent proprietor can show that it has lost license agreements with third parties or income from existing licensing agreements that is higher than the usual royalties as a result of the patent infringement.<sup>258</sup>

Both requirements are usually not met when patents of PAEs are infringed.

Other negative economic effects could be the impairment of reputation and the dilution of the patent’s attractiveness.<sup>259</sup> However, those negative effects should only be compensated in cases of inferior infringer products or unusually high turnover.

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<sup>256</sup> In appropriate cases, the Court may also evaluate “other than economic factors, such as moral prejudice”. As those consequences appear to be of no special importance to the infringement of patents of PAEs, we have decided to exclude them from our study.

<sup>257</sup> Cf. CA Paris PIBD 775 (2003), III-563 (565 et seq.) – Minco/MC France; TGI Paris PIBD 912 (2010), III-125 (128) – Bottega Veneta/Le Tanneur (copyright); Xena v. Cantideck [2013] EWPCC 1 Rn. 100 et seq.

<sup>258</sup> Xena v. Cantideck [2013] EWPCC 1 Rn. 42. See also BGH NJW 1982, 1748 (1749).

<sup>259</sup> See e.g. CA Paris PIBD 1054 (2016), III-600 (607) – Hutchinson/Gomma; PIBD 865 (2008), III-2 (3 seq.) – Schaefer/CITEK.

## II. Unfair profits made by the infringer

In this part we will explore whether PAEs are entitled to claim the infringer's profits if (a) an injunction is denied, delayed or narrowly scoped and/or (b) the infringed patent covers only a minor feature of a complex product. As we have shown that the denial or limitation of an injunction has no limiting effect on damages (above I.), we will focus on the fact that PAEs do not practice their patents and/or that patent covers only a minor feature of a complex product.

### 1. Conceptual considerations

Both questions depend greatly on how the Court will understand the underlying concept of the infringer's profits. Although Art. 13 (1)(2)(a) Enforcement Directive contains the same provision, the concept of unfair infringer profits is still highly unclear.

#### a) Wording and comparison of Art. 68 (3)(a) with (4) UPCA

As a first problem, there seem to be two different concepts of infringer's profits in Art. 68 UPCA:

Art. 68 (4) UPCA gives the Court the discretionary ('may') remedy to order the 'recovery of profits' in cases of patent infringement when the infringement was committed without fault. The wording 'recover' (French: *recouvrement*; German.: *Herausgabe*) seems to indicate that – once the amount of the infringer's profits has been determined<sup>260</sup> – this amount has simply to be handed over to the patent proprietor. However, the wording of Art. 68 (3)(a) UPCA orders the court to 'take into account' several aspects, including 'any unfair profits made by the infringer'. The different wording alone seems to indicate a different meaning. The meaning of 'to take something into account' (French: *prend en considération*; German.: *berücksichtigt*) is "to consider or remember something

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<sup>260</sup> As well as the share attributable to the infringement. The concept of apportionment is recognised in jurisdiction that award infringer's profits, BGH, 24.07.2012 – X ZR 51/11, GRUR 2012, 1226 para. 17 et seqq. – Flaschenträger; Celanese v BP Chemicals [1999] RPC 203, 219 et seqq., 230, 251 (Pat).

when judging a situation”.<sup>261</sup> That means the infringer’s profits have to be considered when assessing the damage to the patent proprietor but it does not necessarily mean that the profits as such have to be awarded.

#### b) Profits as factor to assess actual damage

This interpretation based on the different wording is supported by several further arguments:

The infringer’s profits are not to be assessed independently but as one ‘appropriate aspect’ (Art. 68 (3)(a) UPCA) in order to determine the amount of damages appropriate ‘to the harm actually suffered’ (Art. 68 (1) UPCA). That indicates that the ‘infringer’s profits’ can be used as one of several factors to determine the harm of the patent proprietor. As the benefit of the infringer is, usually, not identical or even similar to the detriment of the patent proprietor,<sup>262</sup> the profits can only be used as an auxiliary fact, as a substitute to assess the harm actually suffered.<sup>263</sup> The wording does not suggest that profits as such are to be awarded if there are better insights into the actual harm of the patent proprietor. This is consistent with the compensation principle in Art. 68 (2)(1) UPCA which focuses on the impact of the infringement to the injured party, not on the benefits for the infringing party.<sup>264</sup>

<sup>261</sup> See #’take something into account’ in the Cambridge Academic Content Dictionary.

<sup>262</sup> BGH, 20.05.2008 – X ZR 180/05, GRUR 2008, 896 para. 32 – Tintenpatrone with further references; TGI Bordeaux, 15.4.1996, PIBD 1996, III-401 (403) – Forsheda/Europe Caout-Chouc (*„que l’existence d’un préjudice ne peut en effet résulter des bénéfices réalisés par le contrefacteur, mais seulement de la perte subie par le titulaire du brevet contrefait”*); Catnic Components v Hill & Smith [1983] FSR 512, 529 (Pat).

<sup>263</sup> See *Saugmandsgaard Øe*, EU:C:2016:73 para. 99 – Hansson/Grünwald (on plant variety protection): “The profit made by the infringer is not as such a component of that damage. [...] like the notional fee — only substitutes for assessing the damage actually suffered by the rightholder, in the absence of evidence of all the elements thereof. In other words, the reference to the notional fee or to the infringer’s profit constitutes a tool enabling the national court to assess that damage and, accordingly, to fix the amount of compensation.”

<sup>264</sup> As laid out above under II.2., it remains unclear how to reconcile that principle with the disgorgement principle in Art. 69 (2)(2) UPCA.



### c) Damages and award of profits as separate concepts

In English law, the award of the infringer's profits as an account of profits is considered as a strictly alternative remedy to a patent infringement. In the words of *Laddie J*:

*“An account of profits is very different. Instead of looking to the harm inflicted on the plaintiff it considers the profit made by the infringer”.*<sup>265</sup>

The same applies to EU Law.<sup>266</sup>

### d) Actual damages, not lump sum approach

This argument is further supported by the systematic position of the infringer's profits. The profits are to be considered as part of the assessment of the actual economic consequences. Although it is seldom possible to quantify losses precisely to the last cent, it should be the goal to assess the damages as realistically as possible with the available information. This is all the more true as the infringer's profits are not mentioned as a method to set the damages as a lump sum in Art. 68 (3)(b) UPCA. Therefore, the German approach to award the infringer's profits as a lump sum and, thus, as an (abstract) substitute for the negative economic consequences of the patent proprietor is not consistent with the construction of Art. 68 UPCA.

### e) Comparative perspective

Fourthly, there is no matching concept in the Contracting States: Before the Enforcement Directive came into effect, different approaches existed in the Contracting Member States on how to take the infringer's profits into account when calculating damages for patent infringements:

<sup>265</sup> *Celanese v. BP Chemicals* [1999] RPC 203 para. 36 (Pat).

<sup>266</sup> GA *Kokott*, EU:C:2014:45 para. 78 – Kone (see the quote above at IV.2). Following her: CJEU EU:C:2014:1317 para. 35 – Kone. Further *Saugmandsgaard Øe*, EU:C:2016:73 para. 99, 104 – Hansson/Grünwald (on plant variety protection).

- » In *Germany*<sup>267</sup> and the *Netherlands*<sup>268</sup>, the recovery of the infringer's profits can be claimed as an abstract, lump sum approach of calculating damages. Especially the German approach differs from the UPCA in two aspects: Firstly, it is a lump sum approach comparable to Art. 68 (3)(b), not a way to calculate specifically the actual harm suffered by the patent proprietor as in Art. 68 (3)(a). Secondly, the *Bundesgerichtshof* rests its very strict approach on the assumption that the infringing use needs to be "sanctioned"<sup>269</sup> which seems to contradict the approach of Art. 68 (2)(3) UPCA.
- » In *England*<sup>270</sup>, the claim for profits in the form of an account of profits constitutes a strictly alternative remedy to damages; the same is true in *Italy*<sup>271</sup>.
- » In *France*, traditionally, a strict distinction has been made between the patent proprietor's damages and the infringer's profits.<sup>272</sup> Only patent proprietor's damages were subject to damages. However, in reaction to the Enforcement Directive the French *Cour de Cassation* allowed to claim the infringer's profit as economic damage to the patent proprietor.<sup>273</sup>

<sup>267</sup> Cf. only BGH, 26.03.2019 – X ZR 109/16, GRUR 2019, 496 para. 20 – Spannungsversorgungsvorrichtung with further references.

<sup>268</sup> Cf. *Fox/Berghuis/vom Feld/Orlando* EIPR 2015, 566 (571).

<sup>269</sup> See below under c).

<sup>270</sup> Although the United Kingdom is no longer Contracting Party to the UPCA, English law, among others, can still be used as a source for a comparative law approach as the United Kingdom was (still) a party to the agreement when it was concluded.

<sup>271</sup> Art. 125 (3) CPI (as substitute for loss of profit). Corte di Cassazione, Judg. of. 2.3.2021, No. 5666 (at para. 6.5); Loconsole, EIPR 2021, 752 (753).

<sup>272</sup> See the design case CA Paris PIBD 1991, III-68 – Promontre Pionca/Hermès : „*La victime d'une contrefaçon doit être indemnisée en fonction de préjudice qu'elle a subi et non en fonction des bénéfices réalisés par le contrefacteur [the injured party must be compensated on the basis of the harm they have suffered and not on the basis of the profits made by the infringer]*“. A different approach existed in French Patent law until 1963, cf. CA Amiens Annales 1931, 109 (114) – Pigeon/Boucher („*immoral que les contrefacteurs conservent une partie de leurs bénéfices illégitimes [immoral for counterfeiters to keep part of their illegitimate profits]*“).

<sup>273</sup> Cass. com ECLI:FR:CCASS:2019:CO00041 = PIBD 1112 (2019), III-120 (124) – Carreira/Muller; Lepoutre/Martin, PIBD 1112 (2019), III-125.

## 2. Taking into account the infringer's profits

Considering the arguments above, we would argue that Art. 68 (3) UPCA does not authorise the Court to recover the infringer's profits independently of the economic harm actually suffered due to the infringement of the patent. However, we identified two approaches that respect the wording and systematics of Art. 68 UPCA:

### a) Indicator for lost profits

Firstly, one can construe the infringer's profits as an indicator for the lost profits of the patent proprietor.

This approach can be observed in France and in England. However, courts in both jurisdictions take into account the infringer's *turnover* (albeit not the profits) to calculate the patent proprietor's negative economic consequences, namely his lost profits. The infringer's profits are an expression of the economic potential of the patent infringement. They can be taken into account both in the calculation of the lost profit and in the amount of the license fee.

A different approach exists in Germany where the infringer's profits is often characterised as an equivalent to the losses incurred by the right holder.<sup>274</sup> Consequently, infringer's profits were denied in a case where the (copyright) infringement actually helped to increase the right holder's sales instead of diminishing them.<sup>275</sup>

Nevertheless, if the Court were to construe the concept of the infringer's profits as an indicator for the lost profits of the injured party, it would not be applicable to the infringements of PAEs.

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<sup>274</sup> See BGH, 08.10.1971 – I ZR 12/70, GRUR 1972, 189 (190) – Wandsteckdose II; BGH, 02.02.1995 – I ZR 16/93, GRUR 1995, 349 (351) – Objektive Schadensberechnung.

<sup>275</sup> BGH, 02.02.1995 – I ZR 16/93, GRUR 1995, 349 (351) – Objektive Schadensberechnung.

b) Measure to assess the economic impact of the infringement as such

Secondly, the infringer's profits can be construed as a compensation for the infringement and therefore for the illegal use of the patent as such – a measure to estimate the damage caused by the intrusion in the legal and economic monopoly conferred by the patent.

However, we argue, it would violate the principle of proportionality to calculate damages that way in the patent infringement scenarios where the infringed patent covers only a minor feature of a complex product because (a) calculating and apportioning the infringer's profits is a difficult, complex, costly and time-consuming undertaking whereas (b) there is an easier and less burdensome way to calculate damages by relying on a reasonable royalty. There is (c) case law of the *Bundesgerichtshof* supporting the exclusion of those scenarios from the award of the infringer's profits.

The Preamble to the UPC Rules of Procedure states that proportionality shall be ensured by “giving due consideration to the nature and complexity of each action and its importance”. Furthermore, the Court shall conduct its proceedings “in the most efficient and cost-effective manner”.

(a) The calculation of the infringer's profits can be an arduous procedure, especially if the patent covers only a minor feature of a complex product. This can be illustrated by the case *Celanese International Corp. v BP Chemicals Ltd.* [1999] RPC 203 before *Laddie J* in the English Patents Court. The plaintiff asked the court for an account of profits for the infringement of a patent which was granted for an improvement in the manufacture of acetic acid. The patent was infringed as part of a complex process to synthesize acids. Only a small step for the purification of the liquid infringed the patent. As – naturally – not all the profits of the synthesisation process could be awarded to the patent proprietor, it cost *Laddie J* great effort and more than 30 pages of his judgement to decide on a suitable method to attribute a fair share of the overall profits to the infringement of the patent. Because the patented purification process had a certain significance for a small part of the customers, but only had a “polishing” function, *Laddie J* allocated 0.3 or 0.6% of the total profit to the patented process.

(b) To employ the complex infringer's profit approach in those cases seems even less appropriate when considering the alternative. The lump sum approach to calculating damages by way of a reasonable royalty has the same function. A license fee at a going market rate is an accepted and objective expression of the value that the market attributes to the use of the patented invention in the specific scenario. There are usually accepted methods of determining a reasonable royalty for the infringing use for which the Court may use the assistance of an expert witness (Art. 57 UPCA).

There is case law of the *Bundesgerichtshof* that supports this approach: In its *Flaschenträger* decision, the *Bundesgerichtshof* has compared the amount of damages calculated by the infringer's profits approach with the reasonable royalty approach in order to verify the validity of the underlying considerations.<sup>276</sup>

*“Da die verschiedenen Methoden zur Bemessung des zu leistenden Schadensersatzes der Kompensation ein und desselben, vom Schutzrechtsinhaber durch die rechtsverletzende Handlung erlittenen Schadens dienen, sollen sie für den Regelfall nach ihrem grundsätzlichen Ansatz zu im Wesentlichen ähnlichen Ergebnissen führen, auch wenn tatsächlich auf Grund der jeweils der Berechnung zu Grunde liegenden unterschiedlichen Parameter Abweichungen nicht ausbleiben können.”*

Translation: “Since the different methods of assessing the damages are meant to compensate the same damage suffered by the owner of the property right due to the infringing act, their fundamental approach should lead to essentially similar results, even if deviations cannot be ruled out due to the different parameters on which the calculation is based.”

This indicates that the “unfair profits made by the infringer” are neither an efficient nor a cost and time effective approach and therefore are not a suitable method of calculating damages in cases in which the patent covers only a minor feature of a complex product.

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<sup>276</sup> BGH, 24.07.2012 – X ZR 51/11, GRUR 2012, 1226 para. 39 – Flaschenträger.

(c) This is in line with a trademark decision of the *Bundesgerichtshof*.<sup>277</sup> In the *Noblesse* decision, the court denied the plaintiff's request for information about the profits of the infringer, especially its cost structure. The infringer was the knife manufacturer "Zwilling" which is a very well-known brand for knives in Germany. The manufacturer added the notion "noblesse" to its trademark and thereby infringed the plaintiff's trademark. However, as this secondary trademark had no noticeable influence on the customers' purchase decision, the attributable share of the infringed trademark to the infringer's profits would have been negligible and subject to "only a rough estimate anyway".<sup>278</sup> In other words: it would have placed a disproportionate burden on the infringer to provide the information that would have been of little help in calculating damages. The same applies to the scenario of a minor infringing feature in a complex product.

### 3. Calculation of infringer's profits

Should the Court come to a different conclusion and generally adopt the concept of recovery of infringer's profits from the *Bundesgerichtshof*, we will argue that it is necessary to make adjustments in cases in which an injunction was denied or limited due to proportionality reasons. The *Bundesgerichtshof* rests its very strict approach on the assumption that the infringing use needs to be sanctioned.<sup>279</sup>

*„Die Abschöpfung des Verletzergewinns dient dabei auch der Sanktionierung des schädigenden Verhaltens und auf diese Weise auch der Prävention gegen eine Verletzung der besonders schutzbedürftigen Immaterialgüterrechte“.*

Translation: "The recovery of the infringer's profit also serves to sanction the infringing conduct and, in this way, also to prevent an infringement of the intellectual property rights that are particularly in need of protection."

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<sup>277</sup> BGH, 06.10.2005 – I ZR 322/02, GRUR 2006, 419 para. 15 – Noblesse.

<sup>278</sup> BGH, 06.10.2005 – I ZR 322/02, GRUR 2006, 419 para. 15 – Noblesse.

<sup>279</sup> BGH, 02.11.2000 – I ZR 246/98 GRUR 2001, 329 – Gemeinkostenanteil (design).

As we have shown above (in part 1), an injunction may be denied because it causes hardship for third parties, may be contrary to the public interest or is disproportionately disadvantageous for the infringer. In all three cases, although the use of the patent is still infringing, it is tolerated by the law due to prevailing interests. Consequently, there is no need for extra deterrence or sanctioning of the infringer. On the contrary, it would be detrimental to the policy reasons that caused the denial or limitation of the injunction.

### III. Lump sum-approach: reasonable royalty (Art. 68 (3)(c) UPCA)

The UPC ‘may set the damages as a lump sum’ in appropriate cases (Art. 68 (3)(c) UPCA) and, in those cases, has to award ‘at least the amount of the royalties or fees which would have been due if the infringer had requested authorisation to use the patent in question’. The Court may rely on the concept of a reasonable royalty which has been well established in the Contracting Member States. According to our findings above, this is the most suitable approach to calculate damages so that they constitute ‘appropriate cases’ in the sense of Art. 68 (3)(c) UPCA.

The reasonable royalty approach simplifies the calculation of damages. But it is not limited to that. It serves as a measure to quantify the damage caused by the unlawful use of the patent as such.<sup>280</sup> As an infringement of and intrusion into the legal and economic monopoly, the use of a patented invention constitutes a damage even if there are no further negative economic consequences such as lost profits. The royalty is therefore not compensation for lost profits, but for the impairment of the absolute right and the possibility of use exclusively assigned to the patent proprietor. They can be seen as “minimum damages” of a patent

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<sup>280</sup> *Tilmann/Plassmann* UPCA Art. 68 para. 11. Cf. for German law BT-Dr 16/5048, 37; BGH, 24.07.2012 – X ZR 51/11, GRUR 2012, 1226 para. 15 – Flaschenträger. For French Law TGI Paris Gaz Pal 345-346 (2009) 25 – Wizzgo/Métropole Télévision (copyright). For English law National Guild of Removers & Storers v. Silveria [2010] EWPC 15 para. 17 (Trade Mark). See in detail Raue, *Die dreifache Schadensberechnung*, 2017, p. 277 et seqq.

infringement, which are independent of any further impairment of the patent proprietor's assets.<sup>281</sup>

Consequently, the willingness of the patent proprietor or the infringer to license is irrelevant for the calculation of damages.<sup>282</sup> When calculating the licence, the Court takes into account all information available to it up to the time of the final decision on damages.<sup>283</sup>

If the Court sets a licence fee as damages, no licence agreement is created between the parties; the infringer does not acquire a right of use.<sup>284</sup> Therefore, the patent proprietor can continue to assert his claim for injunctive relief –<sup>285</sup> if the remedy is not precluded due to the reason laid out above in part 1.

### 1. Licensing practice of the right holder

If the patent proprietor has established a representative licensing practice on the market, those royalties generally would have been due if the infringer had requested authorisation. This royalty is therefore to be set as damages even if the rate is above or below the usual market rate for comparable patents.<sup>286</sup>

<sup>281</sup> Cf. Corte di Cassazione, Judg. of. 2.3.2021, No. 5666 (at 6.3, 6.5); BGH, 24.07.2012 – X ZR 51/11, GRUR 2012, 1226 para. 15 – Flaschenträger; *Meier-Beck*, WRP 2012, 503 (504, 507); *v. Ungern-Sternberg*, GRUR 2009, 460 (461) (on Art. 13 IPRED).

<sup>282</sup> See BGH, 12.05.2016 – I ZR 1/15, GRUR 2016, 1275 para 39 – Tannöd; *Ludlow Music v. Robbie Williams* [2002] EWHC (Ch) 638 paras 47 et seq. (both Copyright); *32Red v. WHG* [2013] EWHC 815 para 29 (Trade Mark).

<sup>283</sup> Cf. BGH, 12.01.1966 – Ib ZR 5/64, GRUR 1966, 375 (378) – Meßmer Tee II (trade mark); BGH, 30.05.1995 – X ZR 54/93, GRUR 1995, 578 (581) – Steuereinrichtung II; *Tilman/Plassmann* UPCA Art. 68 para. 93; Benkard/*Grabinski/Zülch* PatG § 139 mn. 64. Likewise in the USA *Georgia-Pacific v. US Plywood-Champion Papers*, 446 F.2d 295 (300) (2d Cir. 1971). Different in England *Force India Formula One Team v. 1 Malaysia Racing Team* [2012] EWHC 616 Rn. 386 (Ch) (breach of contract, trade secret): Information available at the time of the hypothetical negotiation.

<sup>284</sup> Cf. BGH, 05.07.2001 – I ZR 311/98, GRUR 2002, 248 (252) – SPIEGEL-CD-ROM (copyright); *Tilman/Plassmann* UPCA Art. 68 mn. 91.

<sup>285</sup> BGH, 05.07.2001 – I ZR 311/98, GRUR 2002, 248 (252) – SPIEGEL-CD-ROM (copyright).

<sup>286</sup> Cf. BGH, 16.12.2021 – I ZR 201/20, GRUR 2022, 229, paras. 79, 82 et seq. – ÖKO-TEST III (trade mark) et seq.



There are however two requirements:

Firstly, the licensing practice must be comparable to the patent infringement in terms of scope, time and intensity of the act of use.<sup>287</sup> It must therefore be taken into account by means of a reasonable discount if contractual licences of the patent proprietor allow for a significantly more intensive use or if the patent proprietor undertakes to provide additional know-how.<sup>288</sup>

Secondly, the patent proprietor must have established the royalty and other licence conditions under market conditions in free negotiations. (Internal) Price lists of the patent proprietor are not sufficient if they are not established on the market. The same applies to a remuneration practice if licence agreements were primarily concluded after a notice of an infringement under the threat of an injunction and damages proceedings.<sup>289</sup>

## 2. Compensation rates customary in the industry

In the absence of an established licensing practice on the part of the patent proprietor, the Court will base its decision on the remuneration rates customary in the industry if a corresponding practice has developed in the respective market.<sup>290</sup> For this purpose, it may use the expertise of court experts (Art. 53 (1)(e) UPCA, Rule 185 UPC-RoP).

## 3. Market value

In the absence of both, an established practice of the patent proprietor or an industry practice (or if the infringing use of the patent deviates from the usually licensed use), the Court has to determine the objective economic value of the

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<sup>287</sup> *General Tire v. Firestone* [1975] 2 All ER 173 (178) (HL); *Ultraframe v. Eurocell* [2006] EWHC (Pat) 1344 para 47; *Gerber v. Lectra* [1995] RPC 383 (394) (Pat); extensively *Raue*, Die dreifache Schadensberechnung, 2017, p. 305 et seq.

<sup>288</sup> *Irvine v. TalkSport* [2003] EWC Civ 423 para. 107 et seq. (passing off). On the latter, *Benkard/Grabinski/Zülch* PatG § 139 mn. 67a.

<sup>289</sup> BGH, 18.6.2020 – I ZR 93/19, GRUR 2020, 990 para. 23 – Nachlizenzierung (copyright).

<sup>290</sup> See *General Tire v. Firestone* [1975] 2 All ER 173 (179) (HL); BGH, 18.6.2020 – I ZR 93/19, GRUR 2020, 990 mn. 30 – Nachlizenzierung (Copyright).

infringing use.<sup>291</sup> The point of reference for the calculation of the licence fee is generally the net sales price of the infringer, unless other reference points have become established in the respective industry.<sup>292</sup> The licence fee is set as a percentage in the case where fixed amounts per unit are not customary and reasonable.

The Court has to take due account of the specific characteristics of the specific case,<sup>293</sup> especially all aspects of the infringing use that reasonable parties willing to negotiate would include in licence negotiations.<sup>294</sup>

Two factors are particularly important: Firstly, the expected profit of the infringing business operation and secondly, the influence of the patented invention on the expected profits. Reasonable parties primarily consider the value of the infringing use, in particular the influence of the patent on the marketing and sale of the infringer's product.<sup>295</sup> In addition, the overall protection right density of the product must be taken into account.<sup>296</sup> This is evident, for example, in the case of smartphones that contain so many patents ("patent thickets") that the

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<sup>291</sup> BGH, 25.05.1993 – X ZR 19/92, GRUR 1993, 897 (898) – Mogul-Anlage; 32Red v. WHG [2013] EWHC 815 para. 32 (trade mark); Benkard/*Grabinski/Zülch* PatG § 139 mn. 66.

<sup>292</sup> Cf. for Germany BGH, 06.03.1980 – X ZR 49/78, GRUR 1980, 841 (844) – Tolbutamid; BGH, 12.01.1966 – Ib ZR 5/64, GRUR 1966, 375 (378) – Meßmer-Tee II (trade mark); Benkard/*Grabinski/Zülch* PatG § 139 mn. 69. Likewise in France *Véron/Roux-Vaillard*, Mitt 2006, 294 (299) with further references.

<sup>293</sup> See Recital 17 IPRED; BGH, 30.05.1995 – X ZR 54/93, GRUR 1995, 578 (581) – Steuereinrichtung II; BGH, 23.06.2005 – I ZR 263/02, GRUR 2006, 143 (145 et seq.) – Catwalk (design patent); *General Tire v. Firestone* [1975] 2 All ER 173 (178) (HL); Benkard/*Grabinski/Zülch* PatG § 139 mn. 65.

<sup>294</sup> Cf. BGH, 25.05.1993 – X ZR 19/92, GRUR 1993, 897 (898) – Mogul-Anlage; BGH, 13.09.2018 – I ZR 187/17, GRUR 2019, 292 para. 18 – Sportwagenfoto (copyright).

<sup>295</sup> *General Tire v. Firestone* [1975] 2 All ER 173 (179) (HL); BGH, 24.11.1981 – X ZR 7/80, GRUR 1982, 301 (302) – Kunststoffhohlprofil II; Benkard/*Grabinski/Zülch* PatG § 139 mn. 66.

<sup>296</sup> RGZ 144, 187 (193) – Berechnungsanlage; BGH, 24.11.1981 – X ZR 7/80, GRUR 1982, 301 (302) – Kunststoffhohlprofil II; BGH, 30.05.1995 – X ZR 54/93, GRUR 1995, 578 (580 et seq.) – Steuereinrichtung II; Benkard/*Grabinski/Zülch* PatG § 139 mn. 66.

entirety of licence fees – and correspondingly each licence fee – must be reasonable in relation to the market(able) price of the product.<sup>297</sup> Although it is irrelevant whether the infringer makes a profit from the sale of the infringing device before or after the payment of damages, the customary profit margin in the respective industry must be taken into account, because reasonable parties would not agree on licence rates that cannot be earned.<sup>298</sup> If an invention merely perfects the prior art or influences only a small part of the overall product, the low added value justifies only a low licence fee.<sup>299</sup>

In addition, the market position of the patent proprietor and the infringer must be taken into account, especially “with their strengths and weaknesses, in the market as it exists”.<sup>300</sup> However, the simulated negotiation situation is that of a negotiation *before* the infringing use of the patent, not the (possible) hold up-situation after the infringement where the infringer has to take into account the otherwise sunk production costs as well as the costs of further legal proceedings.<sup>301</sup> For the same reason, the *Bundesgerichtshof* has declined to accept license fees as an established licensing practise of the right holder if they are negotiated after an infringement occurred.<sup>302</sup>

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<sup>297</sup> *Raue*, Die dreifache Schadensberechnung, 2017, p. 312.

<sup>298</sup> BGH, 29.07.2009 – I ZR 169/07, GRUR 2010, 239 para. 49 – BTK (trade mark). Cf. also Benkard/*Grabinski/Zülch* PatG § 139 para. 67a.

<sup>299</sup> Cf. CA Paris PIBD 775 (2003), III-563 (566) – Minco/MC France.

<sup>300</sup> General Tire v. Firestone [1976] RPC 197 (221) (HL): “The “willing licensor” and “willing licensee” to which reference is often made (and I do not object to it so long as we do not import analogies from other fields) is always the actual licensor and the actual licensee who, one assumes, are each willing to negotiate with the other — they bargain as they are, with their strengths and weaknesses, in the market as it exists”. See further 32Red v. WHG [2013] EWHC 815 para. 29 et seq. (Trade Mark).

<sup>301</sup> Cf. ResQNet.com v. Lansa, 594 F.3d 860, 872 (Fed. Cir. 2010); *Raue*, Die dreifache Schadensberechnung, 2017, p. 308.

<sup>302</sup> BGH, 18.6.2020 – I ZR 93/19, GRUR 2020, 990 para. 23 – Nachlizenzierung (copyright); *Raue*, Die dreifache Schadensberechnung, 2017, p. 308.

#### 4. Elevation of licence fee

The licence fee due as lump-sum compensation cannot be elevated per-se without substantive reason. This would be incompatible with the compensatory nature of the claim for damages (see above II.).<sup>303</sup> The Enforcement Directive also requires a full compensation for damages, but not a “detering” effect detached from it.<sup>304</sup> The Enforcement Directive expressly does not require over-compensatory damages (recital 26 (1) IPRED).<sup>305</sup>

In the U.S.<sup>306</sup> and in Germany<sup>307</sup>, there are voices claiming that a different approach is necessary for a royalty that replaces the right to an injunction, especially as the denial of an injunction takes away its “threat value”.

We are not convinced by that argument: A licence fee is the price that the licensee pays the patent proprietor for waiving his right to obtain an injunction. The price cannot be higher just because there is no right to obtain an injunction due to policy or proportionality reasons. In any case, it is virtually impossible to determine the “threat value” of an injunction as it is the mere prerequisite for the

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<sup>303</sup> Cf. CJEU ECLI:EU:C:2016:419 = GRUR 2016, 1043 para. 34, 40 – Hansson (on Art. 13 IPRED); BGH, 18.6.2020 – I ZR 93/19, GRUR 2020, 990 para. 26 – Nachlizenzierung (copyright); BGH, 06.03.1980 – X ZR 49/78, GRUR 1980, 841 (844) – Tolbutamid; Benkard/*Grabinski/Zülch* PatG § 139 mn. 68.

<sup>304</sup> CJEU ECLI:EU:C:2017:36 = GRUR 2017, 264 paras. 28, 31 – OTK/SFP; BGH, 18.6.2020 – I ZR 93/19, GRUR 2020, 990 para. 26 – Nachlizenzierung (Copyright).

<sup>305</sup> CJEU ECLI:EU:C:2017:36 = GRUR 2017, 264 mn. 27 et seq. – OTK/SFP; Corte di Cassazione, Judg. v. 2.3.2021, no. 5666 (at 6.9).

<sup>306</sup> *Amado v. Microsoft Corp.*, 517 F.3d 1353 (1362) (Fed. Cir. 2008); *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312 (1342) (Fed. Cir. 2012).

<sup>307</sup> *F. Hoffmann*, GRUR 2022, 286: compensation should have a deterring or even a punitive effect; *G. Wagner*, GRUR 2022, 294 (296 et seq.): compensation for the loss of the threat potential of an injunction additionally to damages (ca. 10 % bis 25 %); *Leistner*, Festschrift (Liber amicorum) for Reto M. Hilty, p. 15 (forthcoming) (available at SSRN: <https://ssrn.com/abstract=4484038>): “independent compensation for the non-granting of the injunction [...] and thus is to be added on top of the mere claim for damages”.

negotiation of a licence fee.<sup>308</sup> It should be in both cases a reasonable royalty assessed by the same terms as any royalty under the lump-sum approach.<sup>309</sup> As laid down above, the market position of the patent proprietor and the infringer must be taken into account when assessing the reasonable royalty, especially “with their strengths and weaknesses, in the market as it exists”.<sup>310</sup> By that, the Court can weigh in the negotiating power of an injunction. At the same time, the Court has also to take into consideration that it is the particular aim of the proportionality considerations to remove any unfair and disproportional threat value conferred by the injunction in the discussed scenarios.

It may, however, be appropriate – and may be exercised by the discretion of the Court to set the amount of the lump-sum damages – to take into account the uncertainty of how the bargaining power would have played out in real world negotiations. The Court has the discretion to pick a number at the upper end of the margin of appreciation if it is convinced that there was a realistic chance of the patent proprietor negotiating that royalty with the threat of an injunction.

## D. Compensation under Art. 68 (4) UPCA

Art. 68 (4) UPCA allows the Court to react to patent infringements without fault if the infringer did not knowingly, or with reasonable grounds to know, engage in the infringing activity.<sup>311</sup> It may order either a recovery of profits or

<sup>308</sup> See *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (64).

<sup>309</sup> Similarly *Obly*, Stockholm Intellectual Property Law Review 5 (2022), 58 (64) and *Obly*, GRUR 2022, 303 (306 et seq) for the compensation under § 139 (1)(4) German PatG. The same applies for English patent law: England HTC v. Nokia [2013] EWHC 3778 para. 13 (Pat); *Bently/Arnold*, in: Contreras/Husovec (Eds.), *Injunctions in Patent Law: Trans-Atlantic Dialogues on Flexibility and Tailoring*, Cambridge University Press, 2022, p. 275.

<sup>310</sup> *General Tire v. Firestone* [1976] RPC 197 (221) (HL): “The “willing licensor” and “willing licensee” to which reference is often made (and I do not object to it so long as we do not import analogies from other fields) is always the actual licensor and the actual licensee who, one assumes, are each willing to negotiate with the other — they bargain as they are, with their strengths and weaknesses, in the market as it exists”. See further *32Red v. WHG* [2013] EWHC 815 para. 29 et seq. (Trade Mark).

<sup>311</sup> This corresponds to Art. 13 (2) IPRED and Art. 45 (2) TRIPs.

the payment of compensation. The Court has discretion in three different dimensions: Whether to grant a remedy at all, which remedy (recovery of profits or compensation) and the amount payable. When making those decisions, the Court has to weigh the intrusion into the legal monopoly of the patent proprietor against the freedom of competition and the assessment that the infringer could not have prevented the infringement with reasonable care.

### I. Decision to deny a remedy

The Court should deny a remedy “*if this would cause injustice to the defendant*”<sup>312</sup>, for example, if the infringer has not gained any economic advantage from the infringement and the patent proprietor has not suffered any economic damage beyond the unlawful intrusion into his legal monopoly.<sup>313</sup> An example could be cases where the bona fide infringer’s device contained the infringing features, but the recipients of the device could not use these features due to lack of knowledge or necessary additional devices, and the infringer did not point out the features in advertising etc.<sup>314</sup>

### II. Choice of remedy

When choosing a remedy, the Court will take into account the procedural principles laid down in the preamble of the UPC RoP (proportionality, flexibility, fairness and equity). Because the calculation of compensation is in most cases less burdensome than the calculation and apportionment of the infringer’s profits,<sup>315</sup> it is likely that the Court will usually choose the former.

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<sup>312</sup> See *Jaggard v Sawyer* [1994] EWCA Civ 1 para 53; *Hofmann/Kurz* in Hofmann/Kurz, *Law of Remedies*, 2019, 3 (9).

<sup>313</sup> See also *Fox/Berghuis/vom Feld/Orlando* EIPR 2015, 566.

<sup>314</sup> Cf. the facts of BGH, 24.11.1981 – X ZR 7/80, GRUR 1982, 301 – Kunststoffsphohlprofil II; OLG Düsseldorf, 25.3.2010, I-2 U 61/08 juris para. 177 et seq. – Anzeigevorrichtung: display device had patent-infringing technology that could not be used without an additional control element. Similarly *Monsanto Canada v. Schmeiser*, 2004 SCC 34 para. 101 et seqq. (Supreme Court of Canada): Patented herbicide insensitivity had no effect on plant yield because infringer did not use herbicides.

<sup>315</sup> See above III.2.b).

### 1. Recovery of profits

If the use of the patent has had a substantial and visible share in the infringer's profits, it may be perceived as unfair to allow the infringer to keep the profits, even if the infringement was without fault. If the infringed patent covers only a minor feature of a complex product this requirement will usually not be met unless it has been prominently used to advertise the product.

In any case, as the recovery of profits in Art. 68 (4) UPCA is a remedy for no-fault infringements, the strict approach of the *Bundesgerichtshof* which aims "to sanction the infringing conduct and thereby to prevent infringement of the intellectual property rights"<sup>316</sup> would be inappropriate and not in line with the proportionality requirement in Art. 42 UPCA/Art. 3 (2) IPRED.

### 2. Compensation

For the payment of compensation (French: *versement d'indemnités*; German: *Entschädigung*), the Court can use a reasonable royalty as a starting point.<sup>317</sup> However, it can take into account if, for example, the infringer did not derive any economic benefit from the use of the patent or has made significant losses overall.

## E. Conclusion

If the Court denied, delayed or narrowly scoped an injunction, that decision has no impact on the legality of the past and the future use of the patented invention. It may still award damages for future infringement of the patent that compensates the patent proprietor for the continuing use of its patent. How-

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<sup>316</sup> BGH, 2.11.2000 – I ZR 246/98, GRUR 2001, 329 – Gemeinkostenanteil (design): „Die Abschöpfung des Verletzergewinns dient dabei auch der Sanktionierung des schädigenden Verhaltens und auf diese Weise auch der Prävention gegen eine Verletzung der besonders schutzbedürftigen Immaterialgüterrechte“.

<sup>317</sup> Similarly *Bopp* in: Bopp/Kirchner, Handbuch Europäischer Patentprozess, 2023, § 13 mn. 321.

ever, as the retrospective award of damages causes a time gap between the infringing use and the payment of adequate compensation, the patent proprietor must bear the insolvency risk of the infringer. This risk might be mitigated by the award of interim damages under R. 119 UPC Rules of Procedure that could be an instrument of the Court to de facto award payments in lieu of an injunction. Furthermore, the stay or limitation of the injunction may be made dependent on compliance with the interim award of damages.

“Unfair profits made by the infringer” are neither an efficient nor a cost and time effective approach and therefore are not a suitable method of calculating damages in cases in which the patent covers only a minor feature of a complex product or the patent proprietor is PAE. Instead, in cases in which the patent proprietor is a PAE, damages may only be calculated under a royalty approach according to Art. 68 (3)(c) UPCA. The royalty approach simplifies the calculation of damages – and serves as a measure to quantify the damage caused by the unlawful use of the patent as such.

If the patent proprietor has established a representative licensing practice on the market, those royalties are generally payable as damages. However, the patent proprietor must have established the royalty and other licencing conditions under market conditions in free negotiations. This excludes royalties obtained after a notice of an infringement under the threat of an injunction and damages proceedings.

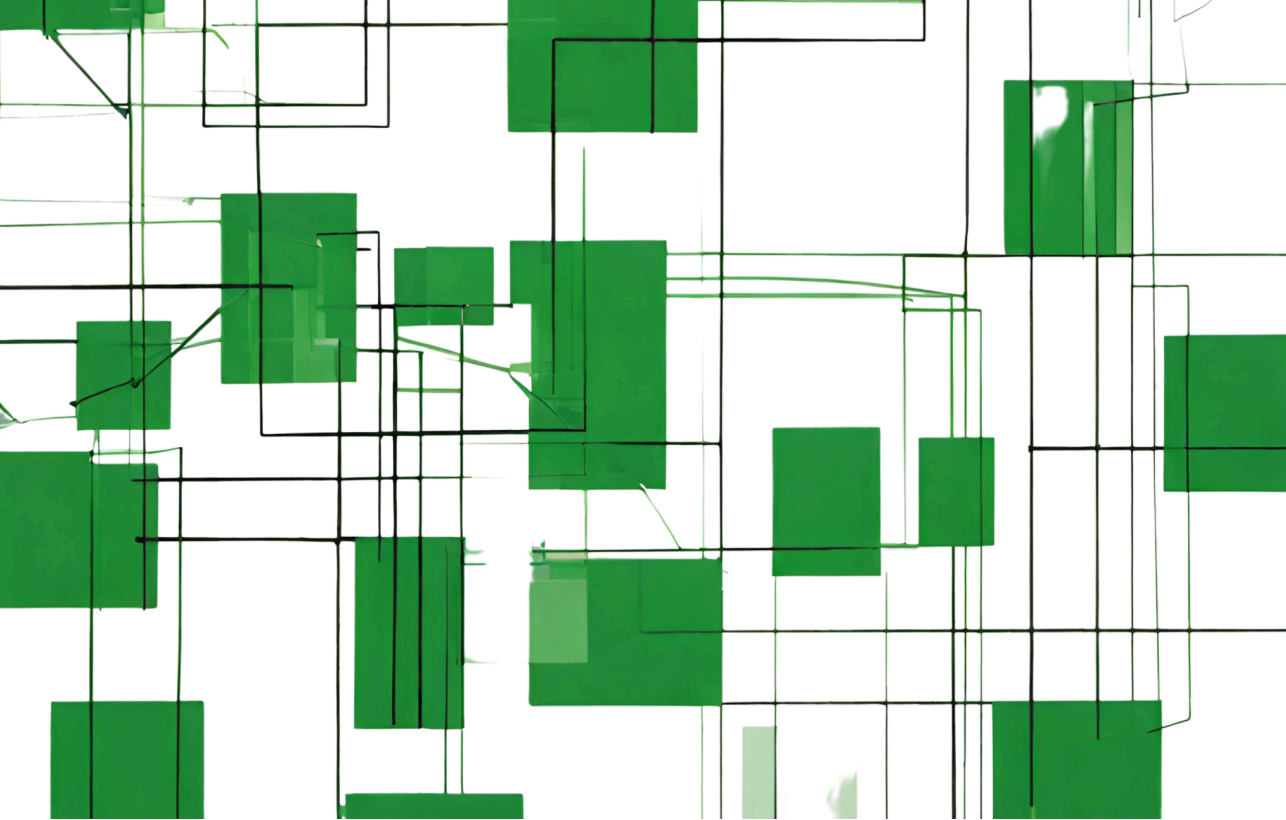
In the absence of both an established practice of the patent proprietor or an industry practice, the Court must determine the objective economic value of the infringing use. Two factors are particularly important: Firstly, the expected profit of the infringing business operation and, secondly, the influence of the patented invention on the expected profits. Reasonable parties primarily consider the value of the infringing use, in particular the influence of the patent on the marketing and sale of the infringer’s product. In addition, the market position of the patent proprietor and the infringer must be considered, especially “with their strengths and weaknesses, in the market as it exists” (House of Lords). However, the simulated negotiation situation is that of a negotiation *before* the infringing use of the patent, not the (possible) hold up-situation after



the infringement where the infringer must take into account the otherwise sunk production costs as well as the costs of further legal proceedings.

It is not convincing to call for an elevation of the reasonable royalty in order to compensate for the forfeited “threat value” of the denied or delayed injunction. First, a licence fee is the price that the licensee pays the patent proprietor for waiving his right to obtain an injunction. The price cannot be higher just because there is no right to obtain a full or immediate injunction due to policy or proportionality reasons. Second, it is virtually impossible to determine the “threat value” of an injunction as it is the mere prerequisite for the negotiation of a licence fee.

Art. 68 (4) UPCA allows the Court to react to patent infringements without fault if the infringer did not knowingly, or with reasonable grounds to know, engage in the infringing activity. The Court has discretion in three different dimensions: Whether to grant a remedy at all, which remedy (recovery of profits or compensation) and the amount payable. Usually, it is not called for to award the infringer’s profits in cases in which the infringed patent covers only a minor feature of a complex product, at least not in the sanctioning manner as the award of profits by the *Bundesgerichtshof* since the *Gemeinkosten* case. For the payment of compensation, the Court should usually use a reasonable royalty as a starting point.



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## **Injunctions and Damages for the Infringement of Patents under the UPCA**

The infringement of a patent regularly results in a claim for injunctive relief and damages. However, depending on the facts of an individual case an injunction might be disproportionate. An injunction might cause hardship for third parties, be contrary to the public interest or, first and foremost, disproportionately disadvantageous for the infringer (e.g. “hold-up”). The study discusses the impact of proportionality considerations on permanent injunctions and damages under the UPCA, with a special focus on non-practicing patent assertion entities (PAEs) and complex products.