EPLAW

European Patent Lawyers Association

YEARBOOK

2007 – 2008

(Editor : F. de Visscher, Past Secretary to the Association)

Association européenne d'avocats spécialisés dans le contentieux des brevets d'invention
Europäische Vereinigung der Patentrechtsanwälte

Siège : Avenue Louise, 149 (boîte 20) 1050 BRUXELLES - BELGIQUE
Association sans but lucratif (Loi du 27 juin 1921)

Dear Friends,

Our Association is steadily growing and certainly finding recognition with the Patent Judiciary, the Commission and the EPO. Together with the EPO we have successfully organized the fourth Venice Forum. The initiative to give access to 10 members who were the lucky winner of the draw in the beginning of the year proved a success - all enjoyed the participation. The Forum, for which we organized the program, was again of high quality and ended with a further important Resolution adopted by the Judges. The EPO and EPLAW intend to have a fifth Forum next year.

This year we organized for the first time a Young EPLAW Congress. Although I had to urge you to send your youngsters (and was somewhat nervous whether or not we would attract enough participants) many of you supported us in the end and the Congress (and the social event the evening before) was a great success. We will organize again a Young EPLAW Congress in 2009 and I trust you again will support it. We will keep the price as low as possible and, as last year, make sure that the program is of high educative value.

We remain closely involved in the work of the Commission towards a European Patent Jurisdiction. Our intent is to ensure that the system will be equitable and efficient, but also that the primary role of the specialist patent litigator, who is not only a specialist in patent law but also fully versed in procedural and other related areas of law, remains recognised and maintained.

We live in interesting times where patent law is the subject of heated public debate. I refer for instance to the Report of the Commission in the Pharmaceutical Sector Inquiry. I am very proud that the first debate with respect to this Report, attended by representatives of the Commission and industry, will take place during our 2008 Annual Congress.

Being President of your Association is a great honour but combined with the daily practice you all know too well, a sometimes tough task. I am very grateful that we have a Board whose members are of great help to me. This year, two members will leave the Board: Kevin Mooney, my predecessor who has supported me magnificently in my first year as President, and Peter Heinrich our Treasurer who has done a wonderful job with Swiss precision and who leaves the Association in a healthy financial state.

Of course without your continued support the Association would not have been where we are today. Please continue that support, keep visiting our website, keep coming to our meetings and keep sending your youngsters to Young EPLAW.

I wish you all an excellent Annual Congress and a prosperous 2009.

Your President,
Willem A. Hoyng

EPLAW Congress 2007

President's Report

16 November 2007

Kevin Mooney

Simmons & Simmons

President's Report

- Guests:
- EPLAW'S MAIN OBJECT
  - "The consistent and cost-effective enforcement of patent rights throughout Europe in one court offering local access to patentees and a simple language regime"

Simmons & Simmons

President's Report

- 2006 was a good year for EPLA
  - July 2006: Brussels meeting reports that users overwhelmingly support EPLA
  - C McCreevy stated on 28 September 2006: "there is a strong call for the improvement of the existing European Patent system... by the successful conclusion of a... EPLA"... **BUT**... "the Community needs to get involved in EPLA"
  - September 2006 Thessaloniki declaration – now 73 judges support EPLA
  - October 2006 – further AIPPI resolution in Gothenburg in favour of EPLA

Simmons & Simmons

President's Report

- October 2006 – European Parliament urges Commission to co-operate with EPLA **BUT** – mixed competence?
- November 2006 – Venice II Resolution re Rules of Procedure for EPLA courts

Simmons & Simmons

President's Report

- HOWEVER
  - October 2006 – The Guillaume Paper reflected opposition to EPLA from France – followed in early 2007 by Spain, Italy, Portugal, Cyprus and Luxembourg: "Communitise the EPLA"
  - January 2007 – Legal Services of European Parliament say EPLA is "mixed competence". Now Parliament Commission and Counsel are unanimous
  - Commission stalled until 03 April 2007 when it finally published its Communication to the European Parliament and the Council – recommends "Compromise C"
  - June 2007 Germany: Presidency organises Munich Symposium: The arrival of Dr. Fröhlinger
  - Content of Munich Symposium is confused – "bifurcation" over lunch

Simmons & Simmons

President's Report

- PORTUGUESE PRESIDENCY:
  - 12 July 2007 – Agenda for 4 meetings with national experts
  - 10 October – First "Non-Paper": bifurcation on table – UK v Germany
  - 30 October – Third Paper (Working Document No 14492/07) – now has UK and broad support for:
    - Central chamber and national/regional chambers
    - Pure validity actions and declarations of non-infringement go to central chamber
    - Counterclaims for invalidity heard locally with full court (German support?)
    - Standard procedures for all courts (based on Venice Resolution)

Simmons & Simmons

President's Report

- One level of appeal on substantive patent issues
- Limited review by ECJ
- Flexible language regime

- VENICE 2007
  - Dr. Fröhlinger wins cautious support of Judges for Portuguese proposals: "EPLA IS DEAD"

Simmons & Simmons

President's Report

- FUTURE
  - Portuguese report to Competitiveness Council dated 9th November:
  - Broad agreement on "most" of key features of 14992/07
  - Outstanding is issue of bifurcation at first instance and the language of judicial proceedings
  - Work must now begin on COMPAT urgently
  - Slovenian Presidency: 4 further meetings of experts planned
  - French Presidency July 2008
- PROGRESS?

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President's Report

- VENICE 2007 – 02-04 NOVEMBER
  - 34 Judges from 15 countries
  - 15 Lawyers from 8 countries
  - President of EPO
  - President of epi
- PROGRAMME
  - Mock Trial: Enantiomers and rules for novelty/obviousness/insufficiency
  - The clash between EPO post-grant procedures and national litigation
  - Debate on Portuguese Proposals

Simmons & Simmons

President's Report

- WEBSITE
  - Demonstration at 2.30pm
  - Expenditure
- MEMBERSHIP AND FEES
  - No change
- BOARD OF DIRECTORS
  - President: Willem Hoyng
  - Vice President: Mario Franzosi
  - Directors to be confirmed:
    - Peter Ulrik-Plesner
    - Gonzalo de Ulloa

Simmons & Simmons

President's Report

- Approval of Minutes of General Assembly of 20 November 2006
- Financial Statement of EPLAW as of 31 December 2006
- Budget for 2008
- Quietus to Board for 2006

Simmons & Simmons

EPLAW Congress 2007

President's Report

Simmons & Simmons

Damages in German Patent Litigation

presented at the
EPLAW Congress
Brussels
16 November 2007

by

Dr. Klaus Grabinski
Presiding Judge at the District Court,
Düsseldorf, Germany

- **I Court System in Patent litigation:**
  - **1) Infringement Courts**
    - District Court (limited number)
    - Court of Appeal
    - Federal Supreme Court
  - **2) Invalidation Courts**
    - Federal Patent Court
    - Federal Supreme Court

- **II Two-Step Patent Infringement Proceedings:**
  - **Remedies available in first proceeding:**
    - cease and desist (injunction)
    - supply of information (about origin and routes and amount of delivery)
    - rendering account (of the extent of the infringing actions and the profit achieved)
    - declaration that the infringer is liable for damages
    - destruction of the infringing product

- **Remedy available in second proceeding:**
  - order to pay damages

- **III Entitlement**
  - **Patent holder**
  - **Exclusive licensee**
  - **Not: Simple licensee**
    - **Patent holder (or exclusive licensee) can transfer the claim for damages to a simple (sub)licensee.**

- **IV Three methods of computing damages:**
  - **return of profit made by the infringer**
  - **reimbursement of lost profits incurred by the infringed party**
  - **payment of a reasonable royalty (licence analogy)**

- **V Lost profits:**

1) General:

- Compensation for damage means **restoring the previous situation**, sec. 249 Civil Code.
  - E.g. recall of infringing products, but generally a restitution is impossible, insufficient or inappropriate for the patent holder.
- The infringed patent holder can claim to be reimbursed for **the loss of profit** he suffered as a result of marketing the infringing product, sec. 251 (1) Civil Code.
  - **Facilitation of burden of proof:** Such profits are deemed to be lost that can **probably be expected** in the normal course of affairs or under special cirumstances, and in particular in accordance with the arrangements and provisions made, sec. 251 (2) Civil Code.

2) Causation:

- **According to the normal course of matters it has to be expected with probability that the lost profits claimed were caused by the patent infringement.**
- **How to prove? An example:**
  - The infringed patent concerned the construction of a power plant. Patent holder, patent infringer and a third company were in competition for construing the plant. The patent infringer won and realized the construction by infringing the patent. Would the patent holder have been ordered to carry out the construction if the infringer had abstained from the infringement? How to prove this allegation? By hearing the sales people from the patent holder or the infringer? By hearing a court appointed expert? By hearing the purchase people from the power plant?

3) Calculation of lost profits:

- **Lost profits can result from:**
  - **lost sales** (sales the patent holder would have made, if the infringer had abstained from infringing actions)
  - **price reductions** (price reductions the patent holder was compelled to concede in order to match the infringer's prices), **loss of prestige** (because of bad quality of the infringing product)
- The prejudiced patent holder has **to reveal details of his proceeds** in order to allow a sufficiently precise assessment of the lost profits.
- In case the defendent disputes the alleged profits the court may order that **a court appointed expert** (normally a certified accountant) examines the cost structure of the patent holder's company.

• VI Return of infringer's profits:

1) General:

- Reclaiming the profit made by the infringer is **an alternative way to compensate the prejudiced patent holder.**
- This method has been **accepted for long** but **became popular only a few years ago after a landmark decision of the Federal Supreme Court** **(145 BGHZ 366, 2001 GRUR 329, IIC 900 (2002) – Share of Overheads).**
- The "Share of overheads"-decision did concern the infringement of an industrial design but according to the case law of the Düsseldorf Court of Appeal and District Court its legal principles are also **applicable in patent infringement cases** **(Düsseldorf Court of Appeal, 2.6.2005, I-2 U 39/03, 5 InstGE 251 – Lifter)**

- **In favour of the patent holder it is presumed that he could have made the same profit achieved by the infringer.**
- **The infringer is treated as if he had persued the production and sale of the infringing object as the prejudiced patent holder's managing director on the basis of a management without mandate**
  (Federal Supreme Court – Share of Overheads).

2) Computing loss of profits:

– **General formula:**

- **profit = sales – costs**

– **Sales:**

- **protected product**
- **non-protected product which is sold due to the sell of the protected product** (not due to other reasons like e.g. exploitation of business relationship between infringer and customers or a reduced price for the purchase of the protected and the non-protected product)

– **Costs:**

- As a rule, **only variable costs of the manufacture and the marketing** of the infringing product can be deducted from the proceeds achieved.
- **No global deduction of pro-rata overheads.**
- **Overheads** may only be deducted if and to the extent that they can in exceptional cases be directly ascribed to the infringing object. The infringer bears the burden of submission and proof.
- The infringer shall **not** retain **a contribution margin to his fixed costs.**

(Federal Supreme Court, Share of Overheads).

– What do these principles mean in practice?

- **Deductible** are costs for the manufacture or the distribution of the infringing product that also the patent holder would have had incured if he had run the business.
- **Non-deductible** are costs that had to be incured „in any event", meaning independently from the manufacture and the distribution of the infringing product
- **Non-deductible** are costs that would not have been incured by the patent holder even though they would not have been incured „in any event".

– Examples of deductible costs:

- **Material and energy costs** for the production and the assembling of the infringing product
- **Costs for deficient products** unless the costs are start-up costs that would not have been incured by the patent holder because he already maintained a respective production
- **Costs for the purchase of a machine** which is exclusively used for producing the infringing product
- **Expenses for personal** that was employed or used only for manufacturing the infringing product
- **Rent for production halls** that where exclusively used for the manufacturing of the infringing product
- **Freight charges with regard to sales**
- **Cash-discounts on sales**
- **Sale-dependent costs for insurances**
- **Sale-dependent agent's commissions**

– Examples of non-deductible costs:

- **Expenses for personal** that is also concerned with the manufacturing of other products (this may be different when the infringer can prove that he would have licensed some of his workers if he had not produced the infringing product)
- **Costs for the general management of the company including CEO's salery**
- **Costs for machines or rent for production halls** that are also used for the manufacturing of other products
- **General marketing costs**
- **Development and start-up costs** for the marketing of the infringing product
- **Damages** payed to customers with regard to the infringing product

- **Attorney's or court fees** for the defence in patent infringement proceedings
- **Costs for infringing products** that cannot be sold due to a court injunction issued in the infringment proceedings
- **Costs for the recall, removal and destruction** of the infringing product

3) Causation

- **The profit from the infringement is only to be surrendered to the extent that it is based on the infringement** (Federal Supreme Court – Share of Overheads).
- **It has to be assessed by the trial judge which factors did influence the purchase decisions of the customers and what is the share of the sales that is due to the use of the infringed patent** (Federal Supreme Court, 2007 GRUR 431 – Steckverbindergehäuse, Düsseldorf Court of Appeal – Lifter).

– **Assessing the share of the proceeds** due to the infringement of the patent-in-suit may get difficult in the following kind of situation:

- The patent infringement concerns only a part of the entire product sold on the market,
- The product sold on the market makes use of several IP rights (technical or design),
- The product is sold under a famous brand or company name.

– **Particular sales activities of the infringer**

- In its decision "Share of Overheads" the Federal Supreme Court pointed out that particular sales activities of the infringer (e.g. the exploitation of business relationships, the use of distribution knowledge, and sales promotion) should not be taken into account as a relevant cause.
- The case concerned a clamping ring which was protected by an industrial design. The commercial success was only due to the design of the ring.

- With regard to technical IP rights like patents and utility models a comparable situation can be found when the use of technical IP right **made it possible to sell the product on the market**. Under these circumstances all of the profit is due to the infringement of the patent or utility model and, consequently, sales activities cannot be taken into account.
- The case is different when the infringed patent **concerns only a detail of the product** which is not very important for the commercial success of the product.

– Interests

- Interests have to be payed **in analogy to sect. 668 Civil Code** which provides that the agent who is using money for himself which he is obliged to return to his principal has to pay interests from the time he uses the money (cf. Düsseldorf Court of Appeal, 2.6.2005, I-2 U 39/03, 5 InstGE 251 – Lifter).
- Interests have also to be payed when the infringer comes into **default.**

- **VII Reasonable royalty:**
  - A reasonable royalty is **a safe and comfortable way** to get compensation for the incurred damages
  - A reasonable royalty can be claimed by a patent holder who is not exploiting the patent himself and, therefore, cannot claim lost profits.
  - **The patent infringer has to pay the royalty that would have been agreed for a licence by reasonable contractual partners if they had known the situation at the end of the infringement period.**
  - A **penalty surcharge** is **not permissible.**

- However, **additional boni** are possible, e.g.:
  - According to German law, past licence fees do not have to be paid back if the licensed patent is invalidated. The licensee is simply exempted from paying any further licence fee in the future. The infringer, however, is not required to make any payments for past use either. Consequently, the licence fee in the imaginary „licence agreement" is increased. **The infringer is compared to a licensee whose licence agreement provides that all licence fees are to be repaid if the licensed patent should be invalidated at any time** (Düsseldorf District Court, 2000 GRUR 690 – Reactance Loop [Reaktanzschleife]).
  - Many licence agreements grant **additional advantages to the licensor like the right to carry out quality controls, audits, etc.** In order to compensate the prejudiced patent holder who can only require the infringer to render account of the infringing actions an additional bonus might be justified.

- **Indications for determining the rate of a reasonable royalty** may come from
  - existing licence agreements
  - reports dealing with licence fee regularily payed in the respective branch of industry
  - the case law of the courts and the arbitration board at the German Patent Office dealing with employee inventor compensation
  - the opinion of a court-appointed expert
- The **entire market value** can become the basis for determining the the reasonable royalty provided reasonable parties would have made such an agreement.
- **If the entire market value is taken as a referential basis for determining the royalties the rate will normally be lower as if only the value of the protected item is taken.**

- **Interests**
  - It is presumed that reasonable contractual partners would have agreed that royalty fees are payable within a certain term and interests have to be payed if no payment has been made in time even if the licensee did not come into default. **Accordingly, the infringer has to pay interests on the reasonable royalty after every accounting period (normally one year).** The interest rate can be fixed in analogy to the statutory interest rate of 8 % above the basis interest rate (fixed by the Deutsche Bundesbank), sect. 288 (2) Civil Code.
  - Higher interest rates are possible, when the infringer comes in default (e.g. interest rate of a credit which the patent holder had to take).