
Bill of the German Federal Ministry of Justice and Consumer Protection for a Second Act concerning the Simplification and Modernization of German Patent Law (Second Patent Law Modernization Act (2. PatMoG))

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On January 14, 2020, the German Federal Ministry of Justice and Consumer Protection published a bill for a Second Act concerning the Simplification and Modernization of German Patent Law (Second Patent Law Modernization Act (2. PatMoG), hereinafter referred to as the “bill”). Specifically, the bill lays down supplementing provisions on the claim for injunctive relief under Sec. 139 German Patent Act (PatG), on the qualified notification under Sec. 83 German Patent Act and on the protection of trade secrets during patent litigation.

1. Claim for injunctive relief under Sec. 139 German Patent Act

1.1 Current legal position and the “Wärmetauscher” decision of the German Federal Court of Justice

The current wording of Sec. 139 German Patent Act does not provide for the proportionality of a claim for injunctive relief to be explicitly examined, as opposed to claims for recall and destruction pursuant to Sec. 140a German Patent Act. Until recently, the question of whether the proportionality of claims for injunctive relief also has to be examined has been one of the most disputable issues of patent law.

In its “Wärmetauscher” decision (German Federal Court of Justice, judgment dated May 10, 2016 – X ZR 114/13, GRUR 2016, 1031), the German Federal Court of Justice only discussed the question (which, on the merits, was answered in the negative) as to whether, based on the disproportionality of the immediate enforcement of a claim for injunctive relief, the infringer ought to be granted a deadline for using up the infringing products. According to the German Federal Court of Justice, the immediate enforcement of a claim for injunctive relief may be disproportionate where, under the particular circumstances of an individual case, taking into consideration the interests of the patentee with respect to the infringer, such a measure would constitute hardship that could not be justified by an exclusive right, thus constituting a breach of good faith.

1.2 Supplementing Sec. 139(1) German Patent Act

Against the background of the “Wärmetauscher” decision of the German Federal Court of Justice, the bill is intended to “clarify” the claim for injunctive relief to the effect that such a claim is excluded where its enforcement would be disproportionate. In this regard, Sec. 139(1) German Patent Act is to be supplemented with the following sentence:

“A claim for injunctive relief is excluded where enforcing such a claim would be

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disproportionate as, under particular circumstances, taking into consideration the interests of the patentee with respect to the infringer and the requirements of good faith, such a measure would cause hardship that could not be justified by an exclusive right.”

In codifying the proportionality examination in the context of a claim for injunctive relief in a clarifying manner, the bill adopts the examination standard used by the German Federal Court of Justice.

The grounds for the bill refer to the supplement to Sec. 139(1) German Patent Act as a “*legislative clarification*” and emphasizes that the legal framework of German law already allows for the examination of the proportionality of a claim for injunctive relief in cases of patent infringement.

The grounds for the bill state:

This clarification is necessary because the courts of lower instances are “*very reluctant*” to consider this corrective measure. The reason for this is that the economic disadvantages of a cease and desist order granted by a court may exceed the dimension which is required in order to achieve a sufficiently deterring effect. However, applying the principle of proportionality must not have the effect of devaluing patent law as a claim for injunctive relief still needs to be a powerful tool and, as such, is indispensable to German industry for enforcing patents. Consequently, limiting claims for injunctive relief has to be limited to exceptional cases because, as a rule, claims for injunctive relief constitute the corrective counter-measure in case of patent infringements. Thus, as a rule, the patentee does not have to show that the claim is proportionate.

Rather, the infringer bears the burden of proof and has to demonstrate substantial grounds for an exceptional limitation of the claim for injunctive relief.

Furthermore, it may be gathered from the grounds that the bill deliberately refrained from listing criteria or examples governing disproportionality in the wording of the bill. Accordingly, the courts of lower instance still are to be tasked with interpreting the standard of proportionality and devising examples governing disproportionality. However, individual criteria and case examples which are to be considered when assessing proportionality and may be helpful in practice are discussed in the grounds for the bill. They include the interests of the patent proprietor in the claim for injunctive relief and the economic impact of the latter as well as the complexity of the attacked product, subjective elements and interests of third parties.

For example, in the context of the overall assessment of all circumstances, the question of whether the patent proprietor itself manufactures the products or components in question or whether they only intend to monetarize the patent, which usually applies to patent exploitation companies and non-practicing entities, is to be relevant as well. It is also to be noted whether the patentee is clearly demanding excessive royalties, which are to be enforced by means of the claim for injunctive relief in breach of good faith.

Regarding the use of complex products, the grounds for the bill emphasize that disproportionality always requires economic effects on the entire business operations. The bill states that, where it is a case

of a dependent element of a component for a complex product as a whole, with this dependent element not being essential for functioning, e.g. special accessories, there are not usually any disproportionate economic effects on the entire business operations. It continues by explaining that, vice versa, what might need to be considered in favor of the infringer is that a modification of the product involves considerable time and expense, for example where statutory or regulatory approval provisions are to be observed, such that the consequences of the injunction are entirely disproportionate to the value of the patent.

Even though the claim for injunctive relief itself does not require any culpability, considering even subjective elements, particularly the manner and extent of the infringer's culpability, in the context of examining disproportionality is to be a possibility, according to the bill. For example, the fact whether or not the infringer has taken any reasonable precautionary measures to prevent any patent infringement (e.g. a "Freedom to Operate analysis") may be significant.

Lastly, it may be gathered from the grounds for the bill that the legal consequences which are to be considered do not only include the granting of a deadline for using up infringing products, but also the permanent denial of a claim for injunctive relief if a deadline for using up infringing products would lead to unreasonable hardship; however, the bill states that this is only conceivable "in very few cases".

2. Qualified notification pursuant to Sec. 83 German Patent Act

With the supplement to the provisions on the qualified notification, the bill addresses another aspect of the German patent system which has been widely criticized, the "injunction gap". In this regard, the bill provides the following supplement to Sec. 83(1) German Patent Act:

"Said notification is to take place six months as of service of the complaint. If a patent litigation matter is pending, the notification also is to be conveyed to the other court ex officio. The Patent Court may set a deadline within which the parties may make a conclusive written statement before the notification is prepared according to sentence 1. If the Patent Court does not set any deadline, the notification must not take place before the time limit pursuant to Sec. 83(3), 2nd and 3rd sentence expires. Statements by the parties which are received after the time limit has expired do not need to be taken into consideration by the Patent Court."

Accordingly, the qualified notification pursuant to Sec. 83 German Patent Act, in which notification the German Federal Patent Court communicates its preliminary assessment of the legal validity of the patent, already has to take place within six months after the nullity complaint was filed. If a patent litigation matter is pending, the qualified notification additionally is to be conveyed to the infringement court ex officio.

According to the grounds for the bill, the supplement to Sec. 83 German Patent Act

intends to improve the synchronization of parallel infringement and nullity proceedings which take place before separate courts in Germany due to bifurcation which is applicable there: Civil courts decide on the infringement of a patent-in-suit, while the German Federal Patent Court assesses the legal validity of the patent-in-suit. However, there is a significant gap between the duration of the two proceedings. While first-instance infringement proceedings are often concluded within one year, nullity proceedings before the German Federal Patent Court take more than two years on average, with duration showing an upward trend. Even the qualified notification is generally only issued as late as 1.5 years after the nullity complaint was filed and, thus, often even after the first-instance infringement proceeding was concluded. Consequently, depending on the result of the infringement proceedings, the Plaintiff may already provisionally enforce the order for injunctive relief in such cases, without a notification of the German Federal Patent Court – sitting with judges with a technical background – regarding the legal validity of the patent-in-suit having been issued first. This is what the supplement to Sec. 83(1) German Patent Act intends to address: Now, as a rule, the infringement court receives a relevant notification of the German Federal Patent Court before the oral hearing and may take said notification into account when deciding on the question of a stay of the infringement proceedings.

3. Protection of trade secrets pursuant to Sec. 145a German Patent Act

The bill also addresses a third problematic area, the protection of trade secrets during patent litigation; it suggests that certain stipulations of the German Law on the Protection of Trade Secrets (GeschGehG) should be applied. For this purpose, a new provision is to be included as Sec. 145a German Patent Act, having the following wording:

“Sections 16 through 20 of the German Law on the Protection of Trade Secrets of April 18, 2019 (Federal Law Gazette I p. 466) shall apply to patent litigation mutatis mutandis.”

According to the grounds for the bill, disclosing information that constitutes trade secrets during patent infringement proceedings may also be necessary for the purpose of justifying claims or for defense purposes. Therefore, the grounds for the bill state, there is a special need for the procedural protection of trade secrets during patent litigation, which protection could only insufficiently be guaranteed thus far. Based on the reference to the stipulations of the German Law on the Protection of Trade Secrets, trade secrets are to be treated confidentially by the parties involved in patent litigation proceedings and must generally not be used or disclosed beyond the court proceedings. Additionally, it enables the courts to limit the access to certain documents or parts of the oral hearing to a narrow circle of persons.

Conclusion and prospect

With the elegant solution of calling the supplement to the provision on the claim for injunctive relief pursuant to Sec. 139(1) German Patent Act a “*legislative clarification*”, the bill already confirms that the German law is in line with European regulations and encourages the courts of lower instances to examine the disproportionality of claims for injunctive relief. However, for the most part, it also rejects any further development of the legal situation beyond the “*Wärmetauscher*” case law of the German Federal Court of Justice. Hence, it remains to be seen whether the envisioned amendment to the law will result in an increased degree of consideration of proportionality by the courts of lower instances, given that the legislator itself states that the existing legal situation should not change to an essential extent. However, according to the grounds for the bill, even denying a permanent claim for injunctive relief is to be possible in absolutely exceptional cases; at least in this regard, the bill goes beyond the current legal situation shaped by the “*Wärmetauscher*” decision of the German Federal Court of Justice.

The supplement to the provision on the qualified notification pursuant to Sec. 83 German Patent Act is good news in general as it intends to considerably improve the synchronization of infringement and nullity proceedings in the context of the current system of bifurcation. The fact that the qualified notification is significantly preponed may facilitate the summary review by courts of lower instances of the prospects of success

of nullity proceedings in the context of a stay of infringement proceedings. To generate real added value for the infringement courts, however, it has to be ensured that the content of the qualified notification is well-founded. This will require additional resources in the Patent Senates. Hence, whether committing such additional resources to the Senates, which will probably require considerable increases in the number of judges in the Patent Senates of the German Federal Patent Court, remains to be seen.

Likewise, the planned reference to the stipulations of the German Law on the Protection of Trade Secrets in Sec. 145a German Patent Act is good news. With this measure, the deficiencies in the protection of secrecy according to the German Code of Civil Procedure (ZPO) and the uncertainties associated to them will be eliminated. The presentation of comparative agreements under FRAND aspects might be considerably facilitated and accelerated in the future.

The German Ministry of Justice and Consumer Protection gave associations and institutions interested in patent, trademark and design law the opportunity to comment on the bill by March 10, 2020. Taking the comments into account, a completed draft is to be prepared shortly afterwards which will be eagerly awaited.