Statement on the Discussion Draft

Of the Federal Ministry of Justice and Consumer Protection

For a Second Law to Simplify and Modernize the Patent Act

(PatMoG) of 14 January 2020

IP2innovate (www.ip2innovate.eu) is an initiative of research-intensive companies and associations[1] that work towards recalibrating the unbalanced patent law. The aim is to promote capabilities for innovation - especially in Germany - to ensure competitiveness, growth and prosperity.

IP2innovate welcomes the initiative of the Federal Ministry of Justice and Consumer Protection (BMJV) to modernize German patent law and in particular the efforts to adapt the Patent Act (PatG) more closely to the reality and requirements of the current and future division of labor and the digitally networked economy of the 21st century. Such an adjustment seems urgently necessary in order to readjust the unbalanced patent law and to maintain the competitiveness of Germany as a location for business and innovation.

IP2innovate also welcomes the fact that the BMJV has given the interested public an appropriate period of time for comments and the opportunity to discuss the draft in detail by publishing the discussion draft (PatG-DiskE) at an early stage.

Finally, the Ministry's approach seems appropriate in that it addresses central aspects of patent law and its current application in Germany in substantive law. From the point of view of IP2innovate and its member companies, the following objectives are of particular importance:

- A Proportionality test in patent infringement proceedings with clear criteria, especially for complex products and manufacturing processes;
- The effective resolution of the *Injunction Gap* between patent infringement and nullity proceedings;
- The lasting containment of non-practicing entities ("NPE", also called "patent trolls");
- Ensuring legal certainty through more consistent implementation of the EU Enforcement Directive.

[1] Adidas, Amadeus, Bull (Atos Technologies), Daimler, Dell, Freebox, Intel, Google, Microsoft, Nvidia, Proximus, SAP, Spotify, Wiko, see also www.ip2innovate.eu/members/

The BMJV's draft discussion paper addresses all of these central problem areas, but in our view it does not yet offer sufficient and appropriate answers to existing and future challenges facing Germany as an important location for innovation and industrial production - and ultimately for safeguarding competitiveness and prosperity.

We see the need for further adjustment in particular in the following aspects of the PatG-DiskE:

1. **Restrictive definition of proportionality**. Although the proposed wording for the amendment of Sec. 139 Patent Law refers to the concept of "proportionality", it does not provide any starting points for balancing the value of the invention on which the infringed patent is based against the extent of the damage to be expected in the event of failure to act and possible interests of third parties. This contradicts the accompanying considerations in the explanatory memorandum of the PatG-DiskE, in which both aspects are mentioned (besides an additional number of further aspects) as at least possibly relevant. Rather, the draft discussion on § 139 PatG restricts the concept of proportionality unilaterally to the aspect of the economic effects of the injunction on the infringer, namely to "a hardship not justified by the exclusive right". In view of the current situation - which goes as far as the application of German patent law bordering on abuse, especially by certain *non-practicing entities* (or so-called patent trolls) - this seems neither appropriate nor sufficient.

2. **Limitation to extreme special cases.** The detailed reference to a BGH decision ("Wärmetauscher") - both in the proposed legal text, which adopts a guiding principle of this decision almost word for word, and in the explanatory statement - refers to the standard of "serious and disproportionate effects on the entire business operations of the patent infringer", i.e. to special cases at the edge of the spectrum to be found in practice. Correspondingly, the discussion draft of Sec. 139 Patent Law also contains a fourfold limitation of the scope of application, whereby the interests of the patent proprietor are mentioned twice ("consideration of the interest", "exclusive right"), but those of the defendant are not even mentioned. Even if one compares the wording of the discussion draft with the existing legal proportionality proviso for the legal consequence claims resulting from a patent infringement (destruction, recall, information, accounting), it is obvious that the proposed proportionality claim concerning the injunctive relief is understood more restrictively and unilaterally than is necessary to secure Germany as a location for business and innovation.

3. **Insufficient addressing of the *Injunction Gap*.** The proposal made in the PatG-DiskE for a better interlinking of nullity and injunction proceedings in Sec. 83 (1) PatG points in the right direction but does not seem to us to be sufficient. A "should clause" for the provision of a qualified assessment by the Federal Patent Court (BPatG) to the infringement court alone will not be sufficient to synchronise the proceedings in such a way as to compensate for the imbalance and potential for abuse caused by the *injunction gap*.

4. **Containment of NPEs.** We very much welcome the fact that Federal Minister Lambrecht intends to close the unwanted loopholes in German patent law, that give so-called "patent trolls" opportunities for abuse that have caused and continue to cause particular damage to German companies.[2] However, the proposals in the PatG-DiskE do not go far enough, as they do not achieve a sufficiently secure closing of the *injection gap* and do not require an appropriate balancing of harm in case of patent infringements. These are the essential "levers" of NPEs, through which in some cases completely excessive license fees can be enforced and which should be addressed more effectively in the amendment of the PatG than is the case in the PatG-DiskE.

5. **Insufficient implementation of EU law.** The proposal made in the discussion draft changes the benchmark of "proportionality" away from an adequacy test to a regulation in extremely exceptional cases, thus limiting the meaning of the concept of proportionality as laid down in the EU enforcement directive on intellectual property rights. The continuing risk of infringement proceedings and the associated uncertainty for the German economy should be avoided.

Two proposals from IP2innovate to improve the PatMoG and to strengthen German patent law in the long term

1. Appropriate proportionality test

The element of a proportionality test in infringement proceedings can counteract the problems described above in the current application of patent law. If the granting of the injunction is disproportionate, the right to injunctive relief should be excluded (or at least suspended).

We therefore propose to add a new paragraph 4 to Sec. 139 of the Patent Act as follows in the course of the amendment now initiated - instead of the *addition to* Sec. 139 (1) Patent Act proposed by the BMJV:

> ***"[1]The claim under paragraph 1 is excluded if the claim is disproportionate in the individual case. [2]In the examination of proportionality, the harm for the patentee to be expected as a result of the infringement must be weighed against the harm to be expected as a result of an injunction. [3]The legitimate interests of the patentee and of the infringer as well as possible legitimate interests of third parties must also be taken into account."***

[2] According to *Handelsblatt* of 16 January 2020 (https://www.handelsblatt.com/politik/deutschland/unterlassungsanspruch-justizministerin-lambrecht-startet-kampf-gegen-patenttrolle/25435770.html).

2. Consistent closure of the *Injunction Gap*

In principle, we welcome the proposed provisions in Sec. 82 and 83 PatG-DiskE.

The amendments to Sections 82 and 83 of the Patent Act proposed by the BMJV are aimed, on the one hand, at reducing the time gap between infringement and nullity proceedings and, on the other hand, at reducing the number of infringement judgments issued on the basis of patents subsequently declared null and void.

In view of the resource situation at the Federal Patent Court, it remains to be seen whether the six-month time limit of Sec. 83 (1) sentence 2 PatG-DiskE, which is not mandatory, will lead to the desired results.

In this context we propose the following extension:

In order to ensure that the infringement court can include an initial consideration of the BPatG in its considerations, in cases where the qualified assessment is not available in time before the hearing of the infringement court, the proceedings there should generally be stayed temporarily until the qualified assessment of the BPatG is available.

Confidentiality

Without prejudice to our comments and the proposal on Sec. 82 et seq. and 139 PatG-DiskE, we welcome the introduction of a reference to the German Act on the Protection of Trade Secrets (GeschGehG) in patent litigation as provided for in Sec. 145a PatG-DiskE.

Background and economic policy context

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

For such highly integrated products, it is increasingly impossible for their manufacturers, even with careful analysis, to have a complete overview of the relevant patents - and certainly not if

components are used that have been developed over several production stages and a multi-level hierarchy of suppliers. Also, a complete and comprehensive examination of possible patent infringements for newly launched products is practically not always feasible.

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

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

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

Modern and future-proof enforcement of patent law

The possibility assigned to the patent right holder to obtain an injunction in a quick and uncomplicated manner was previously generally appropriate and still is so today in many cases.

If, however, complex, highly integrated products are concerned, which have a large number of independent functions which in turn are based on a large number of patents, the case is different: The value that a single one of these patents adds to the product can be drastically lower compared to the economic damage caused by an injunction relating to the entire product. If in such cases the interests of the patentee can be satisfied by payment of damages, an injunction would be disproportionate.

Without the possibility of such a proportionality assessment, the injunctive relief also leads to a lever for excessive license claims, the basis of which would no longer be the actual value of

the patent, but the disproportionately greater injunctive damage. The injunctive relief can have an effect beyond that of the defendant if, for example, the operation of infrastructure facilities relating to mobile communications or cloud computing has to be temporarily suspended. Both would not only run counter to the basic idea of the patent system, but also to the current and even more important division of labor and the digitally networked economy.

A modern and innovation-promoting patent law is the best way, now and in the future, to secure and effectively shape the protection of intellectual property in an increasingly dynamic economy based on the division of labor. It is an effective instrument that protects companies of all sizes, and especially small and medium-sized enterprises, and makes competition fair for all.

The extensive use of patent law, which borders on abuse and originates from times of an economy based on less division of labor, by patent exploitation companies which are geared purely to maximizing license income and which do not otherwise do business, not only harms the companies concerned, but is also a disadvantage for Germany as a business location as a whole: in contrast to companies producing in China or the USA, companies producing in Germany must always and without restriction expect the enforcement of a claim to injunctive relief both with regard to the sale of their products on the German market and with regard to their entire production.