

IP, CONTESTED TECHNOLOGIES AND THE FREEDOM TO GROW

MATHIAS KARLHUBER, COHAUSZ & FLORACK

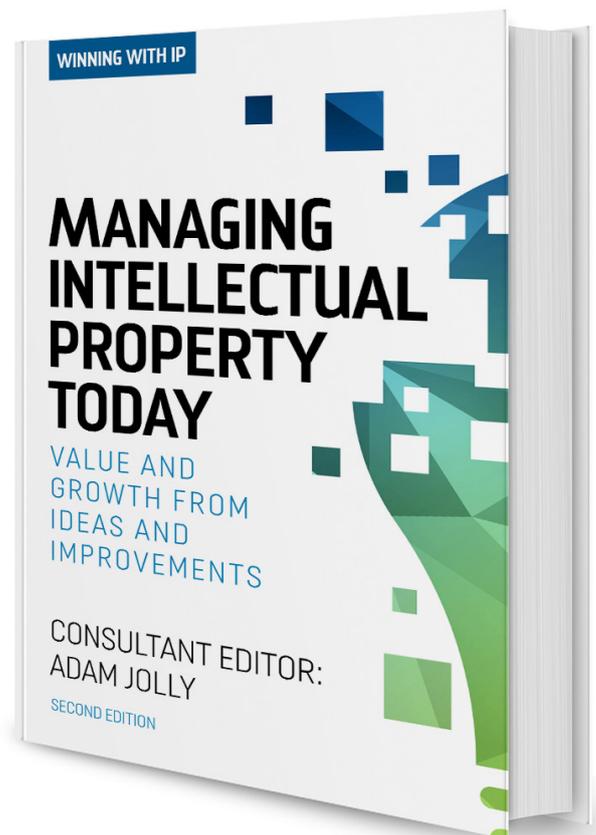
As your growth takes off, IP attacks from direct competitors and indirect prospectors will intensify. So don't let them take you by surprise and disrupt your competitive strategy, says Mathias Karlhuber at Cohausz & Florack in a book about how today's winners are now lining up their IP

Unfortunately, many in the technology industries often start with a misguided mindset about what intellectual property represents. To the question, what should it actually be achieving from an economic point of view? The common answer is: 'our IP is intended to protect our products'. In practice, it may often be right. However, particularly as you start to grow, some misconceptions about the legal and commercial implications start to become apparent, causing widespread consternation for those directing commercial strategy.

After all, don't IP rights, such as patents, have a special protective function in their own right? However, they merely grant a negative prohibitive right, ie, you as the owner may stop others from using your protected creation. However, IP rights in general and patents in particular do not give you a positive right of use for your products.

If you infringe the patents of someone else, these third parties can prohibit you from marketing your products, irrespective of whether you own a patent covering that product. Such powers have far-reaching implications for competitive strategy, especially if you are experiencing rapid growth.

So even if a company has built up a reasonable patent portfolio, it is not necessarily insulated from IP-based attacks to its products and services. There are essentially two main attack scenarios you may face:



NOVARO
PUBLISHING



Drawing on the knowledge and experience of 20 top-level IP performers, including the innovation team at the European Patent Office, this book reports on how IP is being used post-pandemic to create tech solutions, pick up the latest thinking, take a competitive lead, negotiate the best deals, knock back any challengers and open up a path to breakthrough growth. It gives a series of lessons and insights about how today's winners are lining up their IP to transform early-stage ideas and technologies into assets around which competitive business models can be designed.

Further details: www.novaropublishing.com/managing-intellectual-property-today

- From a competitor that offers its own products and services in the same market or in another, not necessarily related, market. In the world of IP, such challengers are often referred to as a 'practising entity'.
- The other scenario is an attack by an IP licensor or prospector, often described as NPEs (non-practising entities). Usually, they are a company or a research institution which holds patents and other IP rights but does not offer any products or services. More pejoratively, NPEs are sometimes called patent trolls.

While the strategies to guard against the risk of such attacks certainly overlap, there are differences between how to respond when attacks come from a direct competitor or from a NPE.

Know what IP is out there

Irrespective of what kind of attack scenario you might be facing, an essential condition for any successful risk mitigation strategy is to obtain comprehensive knowledge about the IP rights which exist and could potentially represent a threat to your commercial activities. In the field of patents, this knowledge is typically sourced by setting up a system to monitor databases for new applications and grants on a regular, typically weekly, basis. The hits identified in line with the monitoring profile then have to be assessed for their relevance to your current or future products.

The major challenge is to define the right profile which produces a digestible number of hits that can still be processed within more or less limited resources, yet provides a sound overview of potential challenges. These patent databases provide a multitude of arbitrarily combinable options to restrict the scope of the search. Typically, the search profile is technology based using classification schemes, such as the International Patent Classification (IPC). One could for example further reduce the number of hits by combining this technology-based search with the names of relevant competitors. However, it can create risky blind spots for NPEs or as yet unknown competitors who might hold or obtain patents in your company's field of technology.

It should be further kept in mind that any risk assessment made in the context of a third-party patent is only a snapshot based on your current commercial activities. As these may change fairly quickly, the risk assessment may rapidly become outdated. Hence, it should be continuously updated, as your company develops.

Preventive measures against attacks by competitors

A first preventive approach against attacks by practising entities is building up a strong IP portfolio covering aspects of the market which are attractive to competitors. If such a position can be achieved, any competitor who risks infringing your patents will think twice before attacking you for patent infringement.

A prerequisite to this preventive effect is, of course, that a competitor holding critical patents is itself interested in using the technology

covered by your patents and is therefore willing to enter negotiations. Hence, under this preventive aspect, the company should not only strive to protect its own products. Rather, one of the primary goals in IP portfolio development should also be to cover potential logical evolutions of the competition's products. Thus, for example, instead of simply not seeking protection for alternative solutions that will not make their way into the company's products, it is always advisable to take a step back and look at this alternative through the lens of the competition.

A second, more aggressive approach to mitigate IP risks associated with competitor patents is, of course, to try to prevent a potentially critical competitor patent from being granted or to attack such a granted patent. In essence, most of the existing national or regional patent systems provide two ways of achieving this goal.

Depending on the respective national or regional provisions, an attempt to prevent a patent from being granted can be made by submitting third-party observations



or, where applicable, by filing a pre-grant opposition with the examining patent office. Challenging a granted patent can either be achieved by a post-grant opposition filed with the competent patent office or by other invalidation attacks, such as nullity actions, before the competent patent office or national court.

Observations

Third-party observations provide the opportunity to submit prior art and arguments to a patent office to convince the examiner that the patent should not be granted or, at least, not with a potentially critical scope of protection. While this is certainly the least expensive approach to mitigating risk, it has the downside that, in most patent systems where this opportunity exists, the submitting entity is not

part of the grant procedure. Thus, it will neither be involved in the discussions between the applicant and the patent office nor has it any right to a reasoned decision rejecting its arguments, so the applicant may more easily be able to convince the examiner and achieve grant despite the prior art submitted. While it is still possible to use the same prior art in a later attack against the granted patent, this prior art is therefore at least fraught with the psychological disadvantage that it has already been considered in the grant process.

Oppositions

Opposition procedures, whether before or after grant, are the second least expensive approach to mitigating the commercial risk represented by a patent. They are widely used thanks to their relative efficiency. They have to be initiated within a certain timeline (eg, nine months from the publication of the mention of the grant of a European patent). Typically, they are subject to payment of an opposition fee and have to be accompanied by sufficiently comprehensive reasons as to why the claimed subject matter does not meet the requirements of the respective patent law. The great advantage is that the opponent is a party to the proceedings and has equal rights as the applicant or patentee. Moreover, first-instance decisions in opposition are typically subject to appeal.

Invalidation

The most expensive way to attack a granted patent is initiating an invalidation attack, such as a nullity action, before the competent patent office or national court. While such an action can be initiated at any time, compared to an opposition, it typically involves considerably higher

costs, as noticeably higher fees have to be paid for initiating the proceedings. Moreover, in some jurisdictions, such as Germany, the loser has to bear the winner's statutory costs: for the claimant, the cost risk becomes considerably higher compared to an opposition where each party only bears its own costs.

Thus, especially with regional patent systems, such as the European Patent Convention, where the centrally granted patent falls apart into a plurality of national patents in the respective member states, opposition procedures represent the unique opportunity to centrally attack the patent, whereas later invalidation attacks would have to be initiated against each individual national patent. Hence, especially for such patents, it is worthwhile to explore filing a central opposition within the narrow opposition window.

Preventive measures against attacks by NPEs

As NPEs are not susceptible to infringement counter-claims, the only possibility to mitigate any risks from their patents are through the attacks discussed above. Companies should be aware that a certain type of NPE, rather than developing its own patents, acquires interesting patent applications or patents from practising entities with a view to enforcing them. It happens often when practising entities pull out of certain fields of technology and monetize their related IP by selling it or spinning it off into a licensing entity.

Hence, what may once have been the patent of a practising entity perceived as less aggressive in the market may well end up in the hands of a considerably more aggressive NPE, whose business model is to license and,



if need be, enforce their patents. So ignoring potentially critical patents just because they are held by a perceivably less aggressive practising entity may quickly turn out to be the wrong approach.

Patent pools and standard essential patents

A distinctive licensing scenario may arise with patent pools, when practising entities and possibly NPEs, such as research institutions, pool their patents for a certain technology in order to license them to third parties. Such a scenario is often encountered in the context of standard essential patents (SEPs), which are inevitably infringed if a certain industry standard is to be met. Such SEPs cannot be freely enforced by their owners but are subject to a licensing offer under conditions which are fair, reasonable and non-discriminatory (FRAND). Enforcement is only available if the potential licensee refuses to take a licence under these FRAND terms. While the approaches for attacking patents are certainly available in this scenario, the sheer amount of patents involved typically does not make it practical. It is generally better to assess your exposure to this scenario and seek early clarity by obtaining the necessary licences.

Strategic and timing considerations

When it comes to attacking patents or patent applications, companies are often concerned about alerting the owner, so increasing their own exposure to retaliation. This reservation can be fairly easily addressed by filing your attack through another natural or legal person, often referred to as a 'strawman', without revealing or exposing your company. It's possible in many jurisdictions, because such attacks are considered to be made in the public interest, so ensuring that only rightfully granted patents exist and are not bound to a personal interest.

Fears about the response to validity attacks, especially via oppositions, can be exaggerated. In certain fields of technology, the stakeholders are highly active when it comes to using the comparatively inexpensive tool of oppositions in order to mitigate their risk. Companies should therefore analyze the level of opposition activity in their technology space in order to assess if such validity attacks are likely to considerably increase their exposure to attacks. Moreover, it has often turned out that an opposition was a trigger for negotiations between the parties which led to amicable business arrangements.

In any case, companies should not forget that what puts them on the radar of competitors or NPEs is more likely to be their commercial success rather than their activities in the IP space. The main difference between a competitor and an NPE is that the former is more likely to take early action in order to protect its market share, while the latter has good reason to wait until the company has established itself and reached a sizable market share which makes it an attractive target. So flying under the IP radar may not have the desired result anyway and, while trying to do so, deprives the company of comparatively low-cost options to mitigate their IP-related risk early on.

In summary, mitigating a company's IP-related risks is a continuous task which should be based on a well-established monitoring system and synchronized with the company's development. Attacking possibly critical third-party patents early on, for example through opposition, is a comparatively low-cost option both against attack from practising entities and NPEs. For risks from competitors in the market, a further facet is the development of an IP portfolio which strives to cover the current and future business of potential attackers. All these measures serve to mitigate a company's IP-related risk and provide a significant contribution to the company's potential for unhindered growth.



Mathias Karlhuber is a partner at Cohausz & Florack, a multidisciplinary law firm in Düsseldorf and Munich that supports its clients in all matters relating to IP and unfair competition. He is an expert in technical IP rights in the fields of electronic program guides, medical devices, semiconductor lithography systems, railway technology, vehicle dynamics, crash safety and aerodynamics, specializing as well in data security, micromechanics and general mechanical engineering. He is also the rapporteur on patents at the IP commission of the International Chamber of Commerce. Further details at e: mkarlhuber@cohausz-florack.de or www.cohausz-florack.de.

Winning with IP: Managing intellectual property today

Published January 2022, 156 pages, paperback,
229mm x 152mm, ISBN 978-1-7398640-0-2

**NOVARO
PUBLISHING**


Newsdesk Global
Independent Book Publishers