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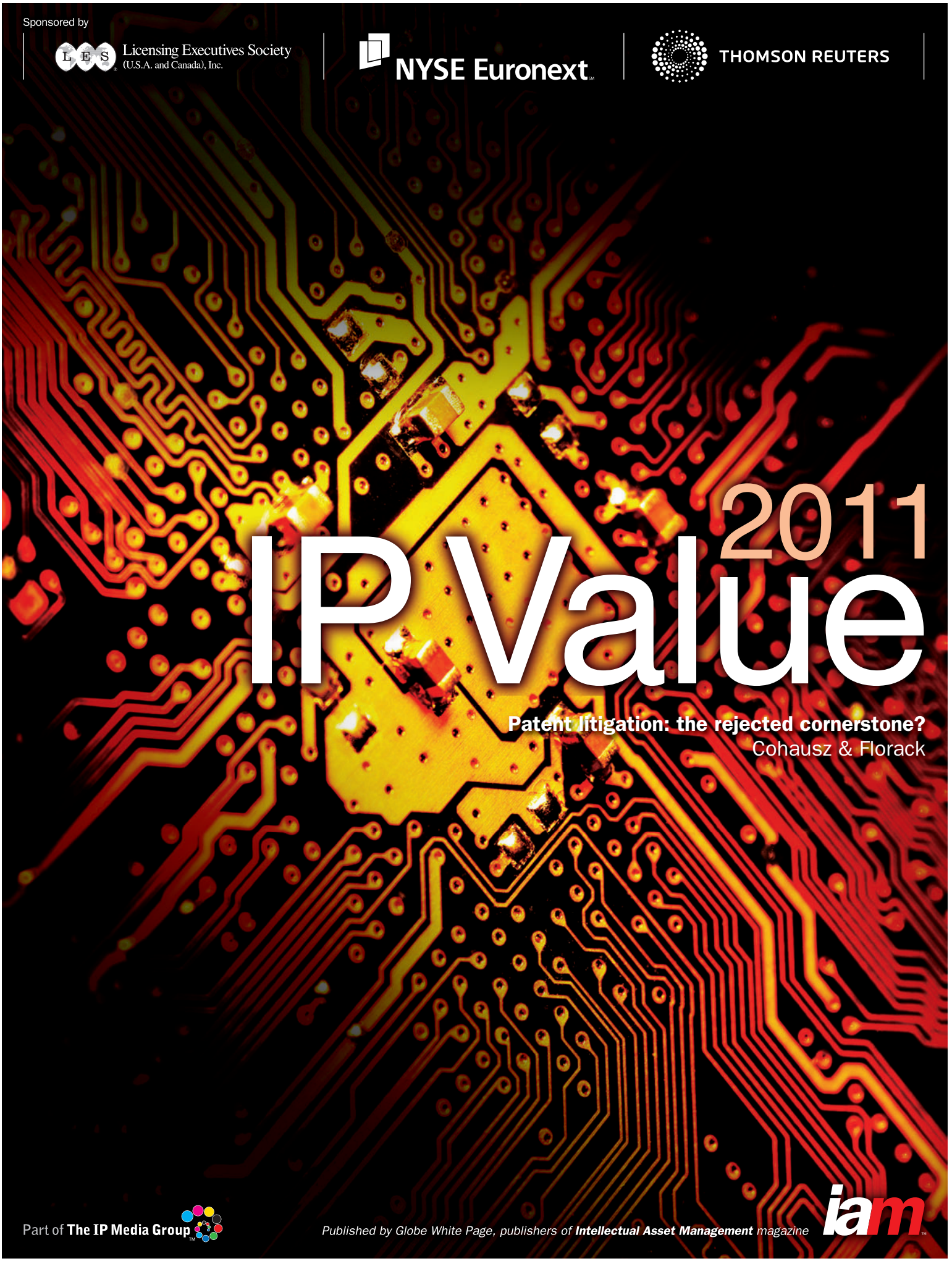

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Patent litigation: the rejected cornerstone?
Cohausz & Florack

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Germany
Patent litigation: the rejected cornerstone?

It cannot be gainsaid that the German patent system was the finest in the world. Obtaining a German patent on a new invention was tantamount to obtaining an insurance policy on the invention.

So said Richard Spencer in 1949. Spencer was the former first assistant commissioner of the US Patent Office, deputy director of the Office of Patents and Inventions and, at the time, US administrator of the then-defunct German Patent Office. Speaking as an official of an occupying power after the Second World War, he certainly felt no sentimental need to laud the legal system of his former enemy. It is safe to say that it was Spencer the Ivy League-educated legal scholar, rather than the military occupier, who made this observation.

However, does this remark from a previous century, referencing the past at that point, have any relevance today, other than as a droll quotation? It does. It is worth understanding the exact principles that Spencer — no layman in the field of patents — found so admirable and how these principles are still important today. More importantly, it should be assessed whether, at a time when the future of the European patent system is being decided, we are working towards preserving the ingredients that Spencer found so praiseworthy.

The current situation

Before identifying these ingredients, consider the latest Global Competitiveness Report published by the World Economic Forum. It ranks Germany fifth in global competitiveness, up two places from the previous year. The report attributes this high rank to, among other things, remarkable "innovation and sophistication factors".

These innovation and sophistication factors include an analysis directed at patents. The report considers the number of patent applications per person in each country. Here something remarkable emerges: while the sub-category 'capacity for innovation' places Germany in first place, the number of patents per capita has Germany in ninth position, behind Taiwan, Japan, the United States, Korea and Switzerland; among others. Historically, the number of German patents per capita has not been consistently higher than that of comparable countries. Thus, the number of patents can be ruled out as the decisive factor in Germany's high ranking for innovation. Instead, it is the quality rather than the quantity of the German patent system that should be examined.

Returning to Spencer's categorical praise of 1949, he elaborated on his initial remark, explicitly citing two sides of the same coin: the rigorousness of the patent granting process and the liberalness of the judges in enforcing the patents.

Of course, Spencer was speaking of the German patent system from before the war. In 1949 the German Patent Office was abolished and all patents dissolved. However, during the reconstruction of the German economy, German IP practitioners, well aware of the high quality of the patent system, made every effort to continue the legal tradition in the field of industrial rights that harks back to the 19th century.

A presumption of validity

According to Spencer's understanding, the German patent prosecution system emphasised the strict examination of all patent applications in order to arrive at claims whose validity was well proven. This strict examination was not an end in itself. It was a necessary prerequisite for the other critical ingredient of the German patent system: confidence that a disputed patent was legitimate. As judges in infringement proceedings could rely on meticulously examined claims, they could enforce these more vigorously. This philosophy of considering a patent to be a legal right with a presumption of validity, rather than something which had to be proven again from square one, found its expression in the principle of separation, which is still used today in German courts. According to this

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principle, a special patent court re-examines the validity of a patent, while a separate infringement court deals with the issue of infringement and presumes the patent to be valid.

There is a commonsense exception to this rule: if the defendant in the infringement proceedings can present strong evidence that the patent is in fact invalid (eg, novelty-destroying prior art that was not produced in the examination proceedings), the infringement court can stay the proceedings until the patent court has resolved the question of validity. However, relying on lack of inventive step over a combination of documents is insufficient for such a stay.

This basic separation of nullity proceedings and infringement proceedings relieves the patent holder from having to rehash the patent-granting procedure before proceeding against an infringer. In addition, it significantly improves the patent holder's legal position in comparison to those European legal systems where infringement and validity proceedings are combined.

What Spencer recognised and acknowledged as exemplary was the simultaneous implementation of these subtly connected ideas: strict examination on the one hand and liberal enforcement on the other. Both aspects are equally important in realising a good patent system or even, as Spencer put it, the best patent system.

A system out of balance

Sadly, the importance of balancing these two concepts is no longer self-evident to patent stakeholders in Europe. Consider contemporary discussions about patents and innovation. There are extensive statistics on patenting activity for all regions and countries, such as:

- how many applications are filed and by whom;
- how many of these applications evolve into patents; and
- what technological fields the patent applications cover.

There are vibrant discussions on whether the current number of patent applications is too high or too low, and whether and to what extent certain subject matter (eg, software and biotechnology) should be patentable.

In Europe, the rigorousness of examination by the European Patent Office (EPO) is no longer a question of debate: the answer has – rightly – long come down on the side of strictness.

Yet the other, equally important side of Spencer's appraisal does not figure prominently today: the question of liberal enforcement. Judging from business and economic publications directed at a wider audience (ie, not restricted to patent professionals), it would appear that there is nothing to discuss with regard to patent litigation.

The reality is that in contrast to patent examination, contemporary patent litigation systems are widely divergent in Europe. The principle of separation, an essential part of the German judicial system, is not implemented in other countries (eg, the United Kingdom). There are myriad other subtle and not-so-subtle differences, which add up to make the rules of patent litigation unique in every European country. Consequently, while one can obtain the same granted patent for every European country, one cannot obtain consistent enforcement for that patent.

Uneven Europe

This is not just a question of legal dogma or procedural issues. When a particular institution of patent law, such

as the principle of separation, is commended, it is not for its aesthetics or its consistency. All these different laws add up to fundamentally different, hard numbers when it comes to comparing litigation and the outcomes of litigation in different countries. For example, pursuing patent infringement proceedings in Germany costs, on average, under €100,000. In the United Kingdom, that average is 10 times higher. However, quite rightly, costs are not the most important benchmark.

In Germany, the total consolidated rate of success for plaintiffs in patent infringement suits is around 33%. In about 50% of the remaining, unsuccessful suits, the infringement court exercised its staying option based on the presentation of novelty-destroying prior art. In the remaining unsuccessful suits the infringement court did not stay the proceedings, but instead denied infringement.

Therefore, for cases in which there is no prior art relevant enough to cause a stay — meaning novelty-destroying prior art — the statistical rate of success in German patent infringement courts is about 50%.

Theoretically speaking, this figure is what one would expect from a fair and predictable patent infringement jurisdiction. Since in the German system — and in some others too — the losing party also bears the winning party's costs, the financial risk is approximately the same for plaintiff and defendant. Thus, a statistical 50% chance of finding infringement suggests that both patent holders and patent users have such a reliable anticipation of what a court decision would look like that the only cases which are not settled out of court are so-called 'close calls'. In fact, these cases appear to be so close that unless the patent is invalidated because of newly found, highly relevant prior art, both outcomes (ie, a finding of infringement or a finding of non-infringement) are equally likely. The summary result is the kind of distribution that speaks eloquently for itself — not only to Spencer, but also to those foreign companies from all over the world that make up more than 60% of the plaintiffs before German patent courts.

Yet in other European countries, the results are starkly skewed. Statistically, the chances of success for a patent holder are one-tenth of those before the German courts, and therefore less than a low single-digit percentage.

A patent is fundamentally a right of prohibition. Thus, its value must necessarily depend on the degree to which that prohibition is enforceable. If the patent is impossible or near impossible to enforce, then its value is close to zero. This observation is almost too trivial to state, yet it is sadly missing from the current discourse on the future of the patent system.

The imminent introduction of the Community patent would see the simultaneous creation of the European and EU Patents Court, which would be responsible both for infringement proceedings and for determining the validity of Community patents.

This new entity would not merely be an addition to the existing ranks of national patent jurisdictions, it would also severely curtail the competence of all national European patent courts, including Germany. This is because a new exclusive jurisdiction would retroactively be extended to European patents designating EU member states that were granted before the European Union's accession to the European Patent Convention. It would thus deny current holders of such patents the option of enforcing their rights in a national venue (eg, a German court).

It seems safe to say that, with regard to any proposed change to the European patent system, Spencer would first and foremost insist on the same liberal vigour in enforcing examined patents that he so praised in the German courts. Unfortunately, and somewhat unfathomably, public opinion — even within the European patent world — does not appear to share these concerns.

The introduction of the EPO in the 1970s left the existing system of national patent offices and jurisdictions untouched. No holder of older patents was affected and neither was there any need to use the EPO system — interested parties could still apply for and enforce patents through the national offices if they so chose. Perhaps it was the presence of this competition in patent prosecution options, which still exists today, that ensured that the services of the EPO were and remain attractive.

Fears for the future

Unfortunately, the current plans neither provide for the sort of healthy competition that accompanied the EPO's founding nor propose the adoption of measures that will ensure a fair chance of enforcing patents. Thus, for proprietors of European patents, the value of these assets will depend on whether and to what extent they will be able to rely on patentee-friendly operating principles. As we have seen from the current European patent jurisdiction landscape, the resulting numbers can vary dramatically. Looking at the historical evidence, one must conclude that establishing effective patent litigation structures has succeeded only in the rarest of cases. Among all European countries, only Germany and perhaps the Netherlands qualify.

Yet there appears to be a political lack of desire to retain the German judicial tradition of the principle of

separation, together with a liberal understanding of the scope of protection of a patent in a possible rearrangement within the European patent litigation arena, even though this tradition perfectly matches the examination philosophy already implemented in the EPO.

Given the lack of public discourse on what may seem irrelevant intricacies of procedural law, it does not appear that the relevant authorities will have enough information to look after the essential interests of patent holders in Europe.

Admittedly, it is difficult for a lay person to see that jeopardising the enforceability of patents diminishes their value for the private sector. This sector, comprising the whole industrial backbone of the old continent, is the one whose interests are first and foremost at stake and which should raise its voice to demand that the whole continent gets the best patent system available.

Europe should be about elevating every country to the best level, not about remaining at or even sinking to the lowest common denominator. The EPO already meets the highest standards for rigorousness of examination. Let us ensure that patent holders remain able to enforce their patents in a court that matches the EPO in excellence, not by trying to redo the EPO's work from the ground up, but by relying on the quality of its decisions.

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