



The End of the ‘Automatic Injunction’ in Germany? – Reform of the German Patent Act Enters Into Force

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Prior to being enacted by the German legislator most recently, the latest reform of German patent law had been discussed for years. Most of the provisions of the “Second Simplification and Modernization of Patent Law” bill now entered into effect with the promulgation of the law on 18 August 2021. On one hand, the bill codifies limited exceptions to the automatic injunction claim against patent infringers previously established by the case law of the German Federal Court of Justice (FCJ). On the other hand, the reform aims at closing the “injunction gap” between rather fast-moving patent infringement proceedings and more drawn out validity proceedings that has characterized the German “bifurcated” system over the past years.

I. Possibility to Deny an Injunction

The reform bill codifies the previous case law of the FCJ (decision of 10 May 2016, docket no. X ZR 114/13 – “Heat Exchanger”) according to which the injunction claim may be excluded in exceptional cases. Previously, lower courts sometimes referred to this case law, but in practice they very rarely excluded the injunction claim against a patent infringer. The legislator’s reasoning of the bill repeatedly states that the explicit introduction of a – usually temporary – exclusion of the injunction claim is intended to “clarify” that the FCJ’s case law is to be applied. The newly introduced addition to Section 139 para. 1 German Patent Act regarding the injunction claim due to patent infringement reads as follows:

“The claim is excluded insofar as its realization, due to the special circumstances of the individual case and the principles of good faith, would lead to a disproportionate hardship for the infringer or a third party, which is not justified by the exclusive right. In this case, the injured party shall be granted appropriate financial compensation. This shall not affect the claim for damages pursuant to Paragraph 2.”

(1) DENIAL OF AN INJUNCTION LIKELY ONLY IN EXCEPTIONAL CASES

The bill’s reasoning cites a number of exemplary factors that may be taken into account in the courts’ decision whether to grant the alleged infringer’s application for excluding the injunction claim on the grounds of disproportionality. Although the fact that the plaintiff is a *Non-Practicing Entity (NPE)* may be taken into account, this factor in itself shall not suffice as a reason for excluding the injunction claim. *Clearly excessive royalty requests* plaintiff is trying to enforce by lodging the infringement complaint may be another relevant factor, as well as *extraordinarily high financial damages* suffered by the defendant if an unlimited injunction were issued that are disproportionate in relation to the value of the infringed patent. In addition, the accused product being a component of a *complex product* and embodying an essential function of the final product may tip the scales towards excluding the injunction claim. The same is true for *subjective factors*, especially whether the infringer had taken measures to avoid the patent infringement such as carrying out a Freedom-to-Operate analysis before putting the accused product on the market. Finally, *third party interests* such as access to life-preserving health products and important infrastructure that would be affected by an unlimited injunction claim, are mentioned as possible factors for the courts’ proportionality decision.

In the absence of (multiple of) the above factors however, the expectation is that this codification of the existing case law will not fundamentally change the way German courts treat the injunction as the standard remedy for patent infringement. Members of the judicial community have commented that the law’s new explicit possibility to exclude the injunction claim will be treated as a clear exception and issuing an injunction is expected to remain the rule. This practice is based on the rationale that the injunction is the patentee’s most valuable remedy and any exclusion of its enforcement is a devaluation of the intellectual property right.

Nonetheless, in practice we expect that defendants in particular in NPE litigation and SEP assertions, but more likely in the vast majority of cases are likely to apply for an exclusion of the injunction claim initially. Arguments regarding

injunction-exclusion and its consequences (see below) are expected to become a routine element of most cases for the next few years, until the courts have established a line of case law for the application of the new provision.

(2) EXCLUSION OF THE INJUNCTION CLAIM USUALLY TEMPORARY

The FCJ’s case law previously mentioned granting “use-up periods” for the infringing products as a limit to the injunction claim. Accordingly, the reform bill’s reasoning states that a permanent exclusion of the injunction claim is only possible in very few, extraordinary cases. Patents which are about to expire have been named as a possible situation where a temporarily indefinite exclusion of the injunction claim may be considered.

(3) IMMEDIATE EFFECTS

Critics of the reform bill have highlighted that some fundamental legal questions are left unanswered with regard to an excluded injunction claim. It remains unclear how suppliers of a defendant who is found to infringe a patent but (temporarily) not enjoined from using the patent will be treated legally. Will such a supplier be considered to be infringing the patent if they continue supplying the infringing product to the defendant?

Also, for the immediate future, the reform bill will lead to additional reasoning efforts of all parties involved in a patent infringement proceeding. Defendant’s counsel will be applying and arguing for a limitation to the injunction claim in relation to the above-mentioned factors, leading to a bloating of the infringement proceeding.

(4) FINANCIAL COMPENSATION

Should an injunction claim be (temporarily) excluded, the plaintiff will have a right to financial compensation against the infringer in addition to the usual damages claim for patent infringement. The provision clarifies that this latter damages claim will remain unaffected by the compensation claim. Nevertheless, some open questions as to the relationship between the two remain. For example, the timing of defendant’s duty to provide information necessary to determine the amount of the compensation claim remains open. Should the courts tend to set the compensation amount in the (first-instance) judgment, defendants would have to provide this sensitive information at an earlier stage than previously in order to benefit from an injunction exclusion. Arguably courts should only order the right to a compensation claim in principle – as practiced for the damages claim – while the exact amount is to be determined at a later stage after the (first-instance) judgment is rendered.

II. Improved Synchronization of parallel Nullity and Infringement Proceedings

The second main aspect of the reform bill regards an improved synchronization between nullity and infringement proceedings. Currently, in Germany's "bifurcated" patent court system, first instance nullity proceedings before the German Federal Patent Court take more than two years on average, while the parallel first instance infringement proceedings before a Regional Court usually move much faster, on average between about one and one and a half years. The Federal Patent Court currently only provides a preliminary opinion to the parties roughly around four months prior to the oral hearing.

To remedy this situation, the reform bill introduces a novel Section 82 para. 3 German Patent Act, according to which the deadline for the nullity defendant's response brief shall be two months as of service of the nullity complaint. Previously, the Federal Patent Court would set this deadline at their discretion, often allowing many months' time for the response. This amendment enters into force as of 18 August 2021.

In addition, a new Section 84 para. 1 sentence 2 German Patent Act is introduced, taking effect on 1 May 2022, reading as follows:

"The preliminary opinion should be rendered within six months of service of the nullity complaint. In case an infringement action is pending, the preliminary opinion should ex officio also be transmitted to the other court".

It is the reform bill's intention to make the preliminary opinion available to the first-instance infringement court before it decides whether to stay the infringement proceeding in view of a pending nullity action against the asserted patent. With this legally non-binding six-month time frame, the legislator is calling on the Federal Patent Court to issue its preliminary opinion much earlier on in the nullity proceeding. Such measure could certainly contribute to a much needed reconciliation of the two bifurcated tracks, the divergence of which led to a disbalance, arguably unduly favoring plaintiffs.

However, suffering from a constant shortage of staff, the average time until a first instance nullity decision is rendered by the Federal Patent Court has nothing but increased over the past five years, peaking at up to three years. The reform bill therefore mentions that four technical judges as well as one presiding and one side judge will be added to the court, amounting to the equivalent of one Senate. It remains to be seen whether this additional staffing, even if implemented in the short term, will enable the Federal Patent Court to accomplish the goal of moving forward the issuing of the preliminary opinion and speeding up the nullity proceedings in general.

Key contacts

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