Patent Quality - What it is and why it is impacting SME right holders (too)?

I. What is patent quality?

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III. Where and how does patent quality generate steering effects?

1. Warrant patents’ exclusionary effects
2. Maintain unconditional claim to desist (§ 139 PatG)
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IV. Summary & outlook
I. What is patent quality?

- Essentially, patent quality means that patents have an effect.
- In practice, that means quality patents are:
  - respected by the public (mainly by competitors).
  - recognized as a quality standard by investors (corporate as well as entrepreneurial!).
  - form solid bases for cease and desist claims.
  - will reliably uphold in potential annulment suits.
  - in bifurcation system like Germany or Korea: will not allow annulment actions to stay infringement trials.
  - form solid bases for preliminary injunctive relief.

II. Why is patent quality essential for the patent system as a whole?

- For every patent system, the granting part is the easy part. The decisive factor is, whether patents granted can also be enforced effectively (and efficiently...).
- For starters, patents are just cost. Therefore, patent applications only make sense, if the application cost can be recovered - by monetizing the patent.
- Patent monetization can be done by excluding competitors (protect own operation), patent sale (generate positive cash flow), patent licensing (generate cash & retain control).
- Patent monetization requires patent validity - with drastic effects, if it is missing:
  - 3rd parties will no longer respect patents, but simply go ahead and use patented inventions
  - Investors will no longer invest in patent based tech companies
  - Monetization will suffer, because nobody will buy or license in any more
III. Where and how does patent quality generate steering effects?

Patent quality’s steering effects often are underestimated. Rather, many people believe that a patent grant held value as such. That is incorrect. Quite to the contrary, at least the following effects are directly tied to patent quality:

1. Patents’ exclusionary (deterring) effects
2. Unconditional claim to cease and desist according to §139 German Patent Act
3. Staying of (German) infringement trial according to §148 German Code of Civil Pro
4. Foreclosure of cease and desist orders in infringement trials (1st & 2nd instance)
5. Availability of preliminary injunctive relief according to §940 German Code of Civil Pro

Patents’ exclusionary (deterring) effects

- Respected are only patents, the validity of which is beyond doubt!
- Patent of doubtful validity (trash patents) do not have deterring effect.
- One good example are current FRAND fee negotiations for telecom patents, that are happening worldwide.
- Here, FRAND licensees (eg from the automotive industry) are claiming portfolio waivers up to 80% because of alleged latent patent nullity.
- They threaten, to simply infringe upon patents, and then defend themselves in infringement proceedings by claiming patent nullity or by suing for annulment.
Maintain unconditional claim to desist (§ 139 PatG)

- Insufficient patent quality also isn’t helpful in the discussion about the unconditional claim to desist, as exists in Germany.

- § 139 German Patent Act reads:

  (1) He, who uses a patented invention contrary to secs 9 to 13, in the event of the risk of recurrent infringement, may be claimed by the aggrieved party to cease and desist. The claim also exists in the event of the risk of a first-time infringement.

- Many jurisdictions do not know this unconditional claim to desist (any more), eg the U.S. since eBay Inc. v. MercExchange, L.L.C. from 2006 (547 U.S. 388).

- Even in Germany, there are critics. And indeed: any unconditional claim to desist does require valid patents.

- If patent quality is not beyond discussion, the provision of this “sharpest sword of patent law” is not to be justified; even more so in bifurcation systems like Germany or Korea!

Enable staying of infringement proceedings (§ 148 ZPO)

- § 148 German Code of Civil Procedure reads:

  If the decision on a legal dispute wholly or in part depends upon whether a legal relationship does or does not exist, and if this relationship forms the subject matter of another legal dispute that is pending or to be determined by an administrative agency, the court may direct that the hearing be suspended until the other legal dispute has been dealt with and terminated, or until the administrative agency has issued its decision.

- German patent infringement courts must respect patents in force.

- With regard to annulment proceedings, they (may) stay infringement proceedings (only), if the probability of the patent being annulled is overwhelming. That is very rare.

- In my 3 years on the Mannheim Regional Courts IP panel that only happened once!

- However, number of cases might rise, if patent quality did deteriorate!
Enable foreclosure of desist orders (in infringement proceedings)

- Before gaining force of law (no further appeal possible) German infringement courts’ verdicts can be declared provisionally enforceable.
- With decisions to cease and desist that is difficult, because the (provisional) judgment debtor must fear to be pushed out of the market – and irreparably so.
- It may also be that the first instance infringement verdict is not dismissed on appeal (before the Higher Regional Court), but eliminated by the patent being annulled before the German Federal Patent Court (BPatG).
- Protection against foreclosure (Vollstreckungsschutz) may therefore be (and not infrequently is) granted, even if the creditor has offered security.
- Therefore, foreclosure of infringement judgements is dependent on patent quality.

Enable grant of preliminary injunctive relief (§ 940 ZPO)

Similarly, when the granting of injunctive relief is at issue:

- It too requires a valid patent, because damage will occur, if an alleged infringer is barred from using a patent, which then is annulled.
- The important infringement courts in Düsseldorf and Mannheim / Karlsruhe therefore raise special demands on patent quality. In Düsseldorf, these must have been "hardened" by being means of re-examination: DE patents in opposition or nullity proceedings, EP patents on appeal (before EPO BoA).
- Munich is more liberal, but the difference in courts practices does show the importance of patent quality as well as their critical assessment by Germany’s most important infringement courts.
IV. Summary and outlook

- Patent quality is increasingly becoming the patent system’s mega topic, because so much depends on patent quality:
  - Patent value for right holders (deterrence of competitors, attraction for investors and licensees).
  - Availability of the unconditional claim to cease and desist (other than in eBay...).
  - Enforceability of patents (staying of procedures).
  - Foreclosure of infringement courts’ orders to cease and desist.
  - Availability of preliminary injunctive relief.

Besides applicants, patent offices are the key. They generate patent quality!

If offices grant too generously, the patent system will end up in jeopardy!

Thank you very much for your attention!