

AIPPI BOSTON CONGRESS

September 7 – 10, 2008

Workshop VIII

Bringing new products to the global market:
Identifying and dealing with the risk of infringement
(sponsored by Knobbe, Martens, Olson & Bear)

Comment identifier les risques d'infraction quand on
introduit de nouveaux produits dans le marché mondial
(parrainé par Knobbe, Martens, Olson & Bear)

Einfuhr neuer Produkte im Weltmarkt:
Erkennen und Handelsweise der Rechtsverletzung
(gefördert von Knobbe, Martens, Olson & Bear)

Tuesday, September 9, 2008

08:30 to 10:30

Room 205ABC

Moderator:

Daniel E. Altman, Knobbe Martens (Irvine, CA, USA)

Speakers:

Ryoichi Takaoka, Takaoka IP Law Office (Tokyo, Japan)

Dr. Matthias Sonntag, Gleiss Lutz (Stuttgart, Germany)

Valentina Boyet, SAP America, Inc. (Newtown Square,
PA, USA)

Reporter:

Daniel E. Altman, Knobbe Martens (Irvine, CA, USA)

Description

When marketing new products, companies often want to know whether they will have “freedom to operate,” “clearance” or a “right to practice” their products in relation to third party patent rights, not only in their own country but also around the world. This workshop included speakers from the USA, Europe and Japan addressing best practices for dealing with third party patents in their particular jurisdictions, and how to advise clients looking to release a new product about the risks of infringements. In particular, the workshop covered techniques and consequences of conducting patent searches, the usefulness of written legal opinions, ways to assess infringement risks, techniques to obtain licenses or acquisition rights, and strategic issues to be considered before attacking validity of a patent in all three major jurisdictions.

The Moderator’s first question to the speakers addressed whether while entering a new market a company should search for a third-party patent, and what the consequences are of knowing about these patents. Valentina Boyet, speaker from the U.S., suggested that a third party search of “problem” patents allows a firm to be better prepared for entering the market and mitigate potentially adverse consequences to product launch by designing around the product, invalidating a patent or acquiring patent rights. However, a search of these patents can complicate the patent prosecution due to “Duty to Disclose” to the USPTO, and this may increase the likelihood of potential finding of willful infringement leading to increased damages. Dr. Matthias Sonntag from Germany discussed that in Europe the usefulness and requirements of “Freedom to Operate” vary according to the different jurisdictions; for instance, under the German law, companies have an obligation to inform themselves about the third party patents in their respective business sector. Ryoichi Takaoka addressed the issue of searching for “problem” patents in Japan. He mentioned that unlike the U.S., there are no disadvantages to searching for patents in Japan because a presumption of negligence attaches with regards to infringement of patents. Patent searches, non-infringement opinions, or hantei (official opinion regarding the scope of a claim by the JPO) can be used as evidence to reverse the presumption. In Japan, “problem” patents are not always negative and provide opportunities to start business collaborations. As Mr. Takaoka mentioned, “patents are not tools for pressures against competitors but are tools for opening the Japanese market.”

After a company finds “problem” patents in a jurisdiction, it must decide whether it should obtain opinions of counsels. In all three jurisdiction—the U.S., Europe and Japan—a well-reasoned opinion about the invalidity or non-infringement of a patent by an experienced, and preferably outside counsel obtained prior to entering the market is a way to minimize the risk of increased damages from infringement and be better prepared for product release. A formal opinion is especially advantageous if the company is considering withdrawing from market entry, designing around the existing product or negotiating a license with third-patent holder. These opinions are discoverable in the U.S. courts if the client relies on them to support a non-infringement and/or inducement defense. In Europe, due to the lack of pre-trial discovery in majority of jurisdictions, these opinions can be used in litigation as private expert opinions to substantiate the non-infringement defense. In Japan, opinions are not discoverable in the court but may be submitted voluntarily.

Once a “problem” patent has been identified the question of what options exist for attacking its validity and under what circumstances should those options be used was presented next to the panel. In the U.S., declaratory judgment of invalidity/non-infringement and reexamination of a patent are two essential tools available for attacking validity of a patent. Declaratory judgments are often used by potential defendants to obtain a declaration by the court that a patent is invalid, unenforceable, or not infringed. In a 2007 opinion, the Federal Circuit stated that asserting infringement is enough to seek a declaratory judgment, but fear or internal knowledge of infringement is not enough, rather the patentee must take “some affirmative action.” Reexamination entails reopening of a patent examination process after the patent has been issued. It has certain essential requirements; the chief among them is “substantial new question of patentability” as to at least one claim. Reexamination has the potential of invalidating a patent even if previously held valid over the same prior art. Additionally, it may also weaken a patent through amendments or admissions. However, it may also strengthen a patent by allowing a patentee to “clear” any newly discovered problematic art. Reexamination is advantageous over litigation because it is less expensive, it requires only preponderance of evidence, it does not require any adversarial measures, the USPTO is more technically sophisticated than juries, it allows preemptive validation, and it cannot be stopped once commenced.

In most of the European countries, courts deal with declaratory judgment for infringement and invalidity in one proceeding. However, in Germany, infringement and invalidity are dealt in different specialized courts. Further, unlike the U.S., in Europe only the court that granted the patent has jurisdiction to decide on invalidity. European courts allow third-party observations, opposition, and nullity/revocation actions. Additionally, a special protective writ of “anticipatory statement of defense” is available in Germany and the Netherlands. This writ allows an alleged infringer an opportunity to be heard in preliminary injunction proceedings even if the patentee has not commenced any action. Anticipatory statements of defense are designed to prevent the injunction from being issued, or at least to get a hearing scheduled at which the defendant can present arguments of invalidity and non-infringement. In Japan, infringement is dealt in the courts, but invalidity is dealt by the JPO. Japan does not allow reexamination and opposition.

After establishing the identification of “problem” patent and ways to attack or avoid it, the panel addressed the issue of consequences of infringement. In all the jurisdictions reviewed, three major consequences were identified: injunction, damages, and cost of litigation. In the U.S., courts have discretion to “grant injunctions in accordance with the principles of equity to prevent the violation of any rights secured by patent, on such terms as the court deems reasonable.” 35 U.S.C. § 283. Both preliminary and permanent injunctions are available to the patentee. Similar injunctions are available to a patentee in Germany as well; however, pan-European injunctions are no longer available in the European courts. Japan also allows injunctions, although preliminary injunctions are available only in case of urgency. When an infringement is established, courts in the U.S. afford remedies based on lost profits, reasonable royalty, enhanced damages in case of willfulness or bad faith, prejudgment and post judgment interest and attorneys fees. German courts award only actual damages computed from lost profits, reasonable royalties, and profit generated by the infringer. Damages may also include loss to reputation, waste of time and resources within the company, but are not as excessive as those awarded in the U.S. or U.K. In Japan, damages are calculated

based on lost profits and reasonable royalties; however, damages calculations are unclear under the old Japanese law.

As a final issue, the panel discussed strategies for acquiring patent rights to “problem” patents. Besides acquiring licenses from a patent holder and royalty provisions, in the U.S. compulsory licenses may be granted to remedy anti-competitive practices and for governmental use. These licenses are also granted in certain TRIPs related provisions, such as health care products, and enable the government to license to a company, governmental agency, or other party the right to use a patent without the title holder’s consent. However, patent holders do not lose their right to act against non-licensed parties. Germany also provides an option of compulsory license, where upon request the Federal Patent Court may grant in individual cases a non-exclusive license to commercially exploit an invention protected by a German or European patent. A compulsory license may be granted if the applicant for a license is unable to offer reasonable commercial terms to the patentee and public interest commands the grant of a license, if a party is unable to exploit an invention patented at a later date without infringing an earlier patent provided the later patent constitutes an important technical advancement of considerable commercial significance, or in order to ensure an adequate supply of the patented product to the domestic market. In Japan, compulsory licenses may be granted as non-exclusive license based on arbitration decision in case of non-use, or as a non-exclusive license on an employee’s invention where the inventor has a right to receive a reasonable compensation from the employer.

The Moderator concluded the session by expressing his and the audience’s thanks to all the speakers on the panel.

Conclusions

The Moderator’s conclusions from the Workshop are as follows:

Identification of third party “problem” patents is the first step when launching a product in a new market. In all three major jurisdictions – the U.S., Europe and Japan, it is strategically advantageous to conduct a search for “problem” patents. However, in the U.S. it creates the potential for willful infringement that may result in increased damages. If a “problem” patent is identified a well-reasoned opinion about the invalidity or non-infringement of such patent is the best way to minimize any future damages from infringement. This opinion may or may not be used in a court depending upon the discovery procedures for the jurisdiction. In the U.S., validity of a “problem” patent can be attacked by seeking a declaratory judgment of invalidity/non-infringement or reexamination of the patent. European courts also issue similar declaratory judgments, and allow third-party observations, oppositions, and nullity actions. However, the system in Japan only allows for invalidation and non-infringement arguments. In all three jurisdictions consequences of infringement include injunction, damages and cost of litigation. Finally, all three jurisdictions allow for purchase of patent rights by licensing and royalty earnings, and have provision for compulsory acquisition of licenses.
