

IP Enforcement Strategies For SMEs

By Bruno Vandermeulen

Abstract¹

Patent disputes present specific issues for SMEs. This is true regardless of whether the SME is a patent owner who wishes to assert a patent or a defendant who is sued for patent infringement and wishes to invalidate a patent. Litigation tactics for SMEs can vary depending on the motivation of the opponent, to what industry sector the parties belong, whether litigation costs and fees must be borne by the losing party in the jurisdiction where the dispute takes place, and what the value of the dispute is. All these specific issues are dealt with in greater detail here, summarising 30 years of practical experience with SMEs at various courts in Europe and the United States.²

Introduction

Before talking about patent litigation and enforcement strategies, it is useful to consider the options for avoiding litigation. Since litigation is expensive and burdensome for the management of SMEs, parties can and should make use of the various ways to avoid a formal court dispute. One popular method is to include an “escalation clause” in relevant agreements, obligating the parties to meet with each other in person in various steps, each time higher up the chain of command in each organization, before a court case can be launched. Another way to avoid disputes is mediation. Many court systems provide for optional or even mandatory mediation, and most lawyers are now obligated to draw their clients’ attention to the possibility of mediation.

When litigation proves to be unavoidable, one important piece of advice is to stay in the driver’s seat and to take the initiative. The party who takes the initiative to start a court dispute will have several advantages, such as choosing the venue, the court, the language of proceedings, the timing, the cost reimbursement system, etc. “Drawing first blood” is an important strategic decision

1. The content of this article was subject to a presentation at the High-growth Technology Business Conference 2019 in Dublin (epo.org/business-success). The author has summarized key takeaways in a short video, to be found on: epo.org/sme-takeaways.

2. If the Unitary Patent with the Unified Patent Court were in place many aspects addressed in this article would become simplified.

that can sometimes conflict with the desire to reach an amicable settlement.

This article will focus on SMEs because, in multi-jurisdictional patent disputes, they are confronted with a couple of typical issues that are worth examining, as there are also ways to avoid or better cope with these issues.

Particular Issues for SMEs

At the end of this article, a few strategy points will be analyzed that apply to all types of companies, regardless of whether they are SMEs or part of a multinational corporation. This section will cover topics that are particular to SMEs, certainly when the SME is caught in a patent dispute conducted in several countries at the same time. See Figure 1.

1. The Key Role of SME Counsel in Cross-Border Patent Disputes

The role of counsel in an international patent dispute is very different from the perspective of an SME than from the perspective of a multinational company, as SMEs typically have no dedicated legal counsel available for this type of work. The work will therefore need to be picked up either by dedicated in-house counsel acting as a go-between for the SME’s management and outside counsel, or by outside counsel who will co-ordinate the work between the SME and the lawyers in the various jurisdictions. This can give rise to specific issues.

1.1 Managing Management’s Time

An international patent dispute can become extremely time-consuming for SME managers and em-

Figure 1. Enforcement Strategies Have An International Perspective



ployees. This is especially true when the dispute is brought before a common law jurisdiction, such as the United States, Canada or the United Kingdom, where the role of witness evidence, testimonials and discovery add extra layers of complexity to the litigation. Activities such as taking discovery, organizing disclosure, and preparing and attending depositions are unknown in the civil law litigation that predominates in continental Europe, and they put a heavy burden on the management of an SME.

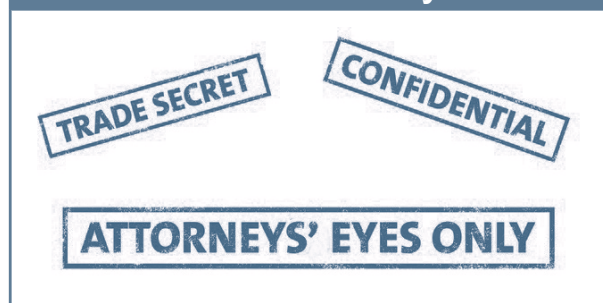
In the early stages of a patent dispute, SME management will typically be very enthusiastic and committed to co-operating. As they feel personally affected by the dispute, they put their personal money into it and they are eager to help. But litigation is not a 300-meter sprint, it is a marathon, and after a year, and certainly after more than a year, that spirit of co-operation will gradually diminish and ultimately be exhausted. Managers have their own daily tasks, and managing a legal dispute is not amongst them. Therefore, as counsel, it is important to avoid such exhaustion and to keep the team engaged and moving forward, but at a slower, steadier pace so they can still remain focused on the goal even after a few years.

1.2 Acting as a Multi-Functional Filter by Separating Information That is Either Confidential, Legally Privileged or “For Attorneys’ Eyes Only”

When the dispute is litigated in several countries at the same time, requiring the SME to hire several outside lawyers to represent it in each country, co-ordination between all these outside lawyers is extremely important. See Figure 2.

The most important role of co-ordinating counsel then becomes acting as a filter between the various levels of information that needs to be exchanged, on the one hand with the opposing side, and on the other with foreign counsel representing the SME. These levels of information are determined based on several criteria that give each communication or item of information a particular label, such as “confidential” or “privileged” or “for attorneys’ eyes only,” etc.

Figure 2. Different Levels Of Confidentiality



Lawyers who have been trained only in continental Europe are less familiar with these concepts. In addition, the rules are becoming more and more complex—particularly in Europe, where two very different sets of European legislation were introduced at more or less the same time: the General Data Protection Regulation (GDPR) and the European Trade Secret Directive (TSD). These two sets of rules serve very different purposes, but they came on top of already existing national regulations regarding legal privilege, confidentiality and bar rules, and they may confuse those who are not acquainted with any of these.

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For staff working in smaller companies with no legal department, all these rules look similar and can be easily confused. A typical example is a non-disclosure agreement: once this has been signed, one might easily think that several other issues are also covered. This is understandable, because trade secret protection and privacy, for instance, have rules about the non-sharing of data in common. However, each set of rules has its own specific purpose and is enforceable only between distinct categories of actors that play a role in a patent dispute, which is why there is very often confusion.

When an SME manager needs to cross the Atlantic because he is facing a patent dispute in the United States, he quickly learns about discovery and must disclose to the opposing side a lot of information and e-mails that in Europe may be covered by privacy rules. On the other hand, he learns that his own lawyer receives information from the opposing side that is labelled “for attorneys’ eyes only” that he himself cannot access. This rule is intended to protect the confidentiality and interests of the opposing party. The SME manager typically confuses this rule with another one that protects his own interests from that same opposing party, *i.e.*, legal privilege. What, exactly, is the difference? And where do the new rules regarding privacy and trade secret protection come into play?

These are issues that legal counsel is experiencing more and more and that become increasingly complex in cross-border disputes. SMEs need to do their homework to better understand these issues, but they usually cannot rely on internal expertise to deal with all these rules. They need a single point of contact who can manage these issues.

It is fair to say that SMEs rarely have good experiences with patent enforcement, and that they like to stay out of it. Although there are many exceptions to this claim, there are typical mistakes that SMEs make that cause this disarray with patent disputes. But these mistakes are not that difficult to avoid, which is why this article offers some recommendations.

Common “Mistakes” of SMEs When Confronted With an International Patent Dispute and Some Solutions

- “Personalizing” a dispute
 - Keep distance
 - Build a team
 - Delegate tasks
 - Inventor/CEO as only witness?
- Voicing frustrations via non-confidential and non-privileged e-mails
 - Manage internal communication
 - Avoid paranoid attitudes
 - Putting the right value on a dispute

1.3 Avoid Personalizing a Dispute

An SME manager who becomes involved in a patent dispute can sometimes take the dispute very personally. This prevents a business-oriented approach to the challenge. A typical situation is as follows: An inventor working as head of a scientific department at a university makes an invention, files an invention disclosure with the technology licensing office and supports filing a patent. Since the technology is promising, the university and the inventor decide to spin it off by setting up a company. The inventor also manages to find funding for the new venture, including his own savings. Since he has certain management skills, he becomes the first CEO of this company. When the company then gets sued to challenge the patent’s validity or to stop its products from being sold, the CEO/inventor/investor will take such a legal attack very personally. Despite his function as a CEO representing the company, he will take the legal dispute as a personal matter between himself and the opposing party. What then typically happens is that the CEO exercises control over every argument, witness and document that is used in the dispute. The dispute becomes so time-consuming that he has no time to manage or to delegate other tasks. Soon the dispute revolves exclusively around the person of the CEO himself fighting against the competitor.

After a while, this starts to affect the quality of management and the time that can be devoted to management, and leads to demotivation among other members of the company, who are excluded from the issue. A proactive counsel is needed to help in depersonalizing the dispute by (i) encouraging the delegation of tasks early on and (ii) forming a litigation team instead of a “one-man army.”

It should also be ensured that more than one person is able to serve as a possible witness in a dispute.

1.4 Deal With Reluctance to Disclose Sensitive Business Information

Another related issue that frequently arises is that SMEs are typically reluctant to comply with a request for discovery (known as disclosure in the UK). As the SME

is often quite young, its activities may revolve around a single product or service that is considered to be highly innovative and unique. The company’s manager is most often the author or originator of all the information that is requested for discovery. Therefore all requests for discovery or disclosure are perceived as excessively invasive and personal.

The SME manager will take such requests for disclosure as an invasion of their privacy—an attack on their private business life—because they have to disclose their business plans, their economic data and many other things they would never have to hand over if they had been sued only in a court in continental Europe.

Anticipating such fears and dealing with them as they arise is part of counsel’s job, regardless of whether they are in-house or external. This reluctance must be prevented from becoming such a nuisance that the SME is willing to pay anything just to get rid of the dispute. Patent disputes are often settled for sums that are considered a “nuisance value.” It is this reluctance to cooperate in discovery that accounts for the largest part of the nuisance value that motivates an SME to seek a deal rather than fight until better terms can be achieved, or the court renders a decision. Keeping this nuisance value down becomes an important part of counsel’s mission.

1.5 Put a Value on any Dispute

A very useful tool that counsel can use to solve—or at least mitigate—the challenge described above is to ask questions at regular intervals about the value of the dispute. In most continental European countries, with the exception of Germany, outside counsel is not supposed to know what the financial stakes of the dispute are, as this is not considered to be part of his role. Nevertheless, it can be a key factor for putting a case into perspective and reaching a solution. Germany is an example of a jurisdiction with a very mature patent litigation system where this is handled differently. Parties who want to open a case before a German court must determine the *Streitwert* (dispute value) at the outset, so that the entry fees for the procedure and the fees that the losing party might need to pay to the winning party can be calculated in advance. This figure is not something the parties can decide freely; it is regulated, and the court itself will increase the *Streitwert* if it believes that the stakes are higher than presented.

Such a system has an advantage for the parties as it forces them to calculate their risks and financial exposure with greater care. It can therefore help to reach a settlement earlier. Especially for SMEs whose litigation budgets are limited, this is something that should be kept in mind.

In any case, counsel should ask management what the dispute is worth to them, what the value of the technology and its products or services at stake might be, and whether it would cost more or less to avoid infringement or to settle.

This estimated value is purely business-driven and

should not be confused with the nuisance value described above, which is more an emotionally driven figure that should be disregarded. It is easier for outside counsel to distinguish between these two values than for the management of the SME to do so.

2. Financing Litigation

Budget Management

- IP litigation lawyers: such an expensive experience—never again
 - Benefit from “bifurcating” a patent dispute
 - Request quarterly budgets over a long period
 - Keep a say about the teams
 - Improve recovery of fees: determining the “*Streitwert*” of a dispute
- “No cure, no pay”: a good solution?
- Litigation funding: an alternative?

2.1 Budget Your Own Litigation Costs Regularly and for Longer Periods

Litigation lawyers don't like to come up with budgets or make estimates about their costs in a legal dispute as it is challenging to predict the actions of opponents and the time and effort it may take to counter them. Nevertheless, budgets and fee estimates are essential for SMEs to decide whether or not a patent dispute is worth pursuing.

Contrary to the United States, in Europe it is not possible to conclude a fee agreement with a litigation lawyer on a “no cure, no pay” basis. Ethical and professional rules do not allow a pure contingency model, as it might compromise the legally required independency of a lawyer. However, many jurisdictions do allow agreements that stipulate a markup or a success bonus for counsel upon successful conclusion of the litigation. Nevertheless, experience teaches that even these solutions require attention in order to avoid another type of dispute between companies and their legal representatives.

2.2 The Alternative Solution: Litigation Funding

A good alternative to negotiating success fees with your counsel is to seek litigation funding from a specialized company. Such companies act like investors who evaluate the risk of winning or losing, similar to any other investment company. By advancing the legal fees, they do not invest in the company's stock or technology, but in the chance that a company will successfully defend its case and get an award out of it. Only if an award is collected do they take a share of that award in return for the risk of their investment. Such business models exist and are becoming more and more popular in Europe.

2.3 Be Aware of the Variety of Cost Recovery Procedures

Although the cost recovery procedure is rarely a decisive factor in a party's choice of jurisdiction, it is important for SMEs to know which jurisdictions have cost

recovery procedures and which do not. This can help to determine when the time is right to make settlement attempts, and it may also help to prevent parties from behaving unreasonably during the dispute. For instance, opponents focusing on litigation profits (*e.g.*, when the opponent is not practicing the patent) typically avoid jurisdictions where they run the risk of cost reimbursement, because this means higher financial exposure.

In the United States, the lawyer's fees of a prevailing party can only be recovered from the losing party in a so-called exceptional case, *e.g.*, when a patentee attacks a party with clearly bad intentions, meaning that there is not the slightest ground for alleging infringement. The disadvantage of never recovering your lawyer's costs is only compensated by the comparatively large damages awards in the United States, which often make the costs of litigation affordable in the event of a win.

In Europe, cost recovery by the prevailing party against the losing party is, in principle, mandatory under a 2004 European Directive. However, practice shows that this directive is applied very differently from one country to another. The determination of the value of the dispute is an important factor in determining how much the prevailing party can recover from the losing party. In Germany, recoverable fees are predictable and can be calculated with some precision, but they are hardly ever sufficient to cover all costs. In the United Kingdom, in contrast, recoverable costs can be unpredictable, as they depend on how the dispute evolves. Instead, UK courts have discretion to award a small or large portion of the legal fees sustained by the prevailing party against the losing party. In the Netherlands, the losing party frequently has to pay all the legal fees of the prevailing party, and the amount is not known until shortly before the court hearing.

It is important that counsel inform the SME, in a timely and complete manner, of the amounts that it may have to pay, both for the requested legal services and for those of the other side if the litigation does not end in the way they expect.

3. Patent Enforcement Strategies are Sector-Dependent

Generally speaking for businesses of any size, patent enforcement disputes can vary widely according to the sector the parties belong to. As long as the business is facing an opponent that is a direct or potential competitor and needs to protect its own commercial activities, there are many options for negotiation, and each party can then determine where their interests lie.³ Cross-licensing with market allocation (if permitted by antitrust law) and other mechanisms are then available to help the parties to find common ground.

Three sectors are of particular relevance. The first is the life sciences sector, where a distinction must be

3. When the opponent is not practicing the patent, the focus usually is on financial terms.

made between the pharmaceutical sector, the medical devices sector and the biotechnology and biosimilars sector. The second is the electronics sector. And the third is the chemical sector. See Figure 3.

3.1 Life Sciences

In Europe, drug patent litigation by and against pharmaceutical companies is characterized by a country-by-country approach. Drug patents must be enforced (or challenged, as the case may be) in each country separately, and not all countries are worth instituting litigation. There are two reasons for this. The first is because patents are still strictly territorial in nature: a win in France has no legal effect in Germany and *vice versa*. But the second and more important reason is that each country has its own social security system, with its own rules of reimbursement. There may therefore be countries where it is worth fighting for the market of a particular drug, and other countries where this market is not interesting enough. Companies that would like to launch a generic or competing drug on a national market must consider not only the size of the market, but also the gains to be made for that particular product via the social security system.

This explains why, for instance, in a small country like Belgium, with a relatively small consumer market, there are as many drug patent disputes as in other, larger jurisdictions, such as Germany and France. Belgium has a rather generous social security system that makes it worthwhile for pharmaceutical companies to litigate their patents there, too.

Medical devices, although part of the broader life sciences sector, are sold and distributed in a very different market. As they are not pharmaceutical products, they are not subject to attractive reimbursement rules. On the other hand, they are heavily regulated, *e.g.*, by technical standards, traceability rules, compliance and storage rules, and rely on a complex and carefully designed distribution mechanism. Such products cannot easily be re-routed or

hidden from patent attacks. To knock out a competitor in Europe, it is often sufficient to successfully stop them in one or two countries so that their further supply or distribution throughout Europe is compromised. That often suffices to succeed for the rest of Europe.

Biotech products and biosimilars are again a different and also challenging area. There are only a few courts in Europe that are specialized enough to handle the more complex subject matter. In addition, the manufacturing facilities for such products are concentrated in a small number of jurisdictions. Consequently, pan-European litigation for such products is not necessary, contrary to drug litigation. Disputes in this sector will mostly be concentrated in just one or two key countries.

3.2 Electronics

Patents in the electronics sector, particularly those relating to telecommunications or entertainment equipment covered by international standards, are typically enforced in jurisdictions where the products are imported from outside Europe, *e.g.*, the Netherlands. This makes it possible to block importation of such products for the entire European region in a single blast.

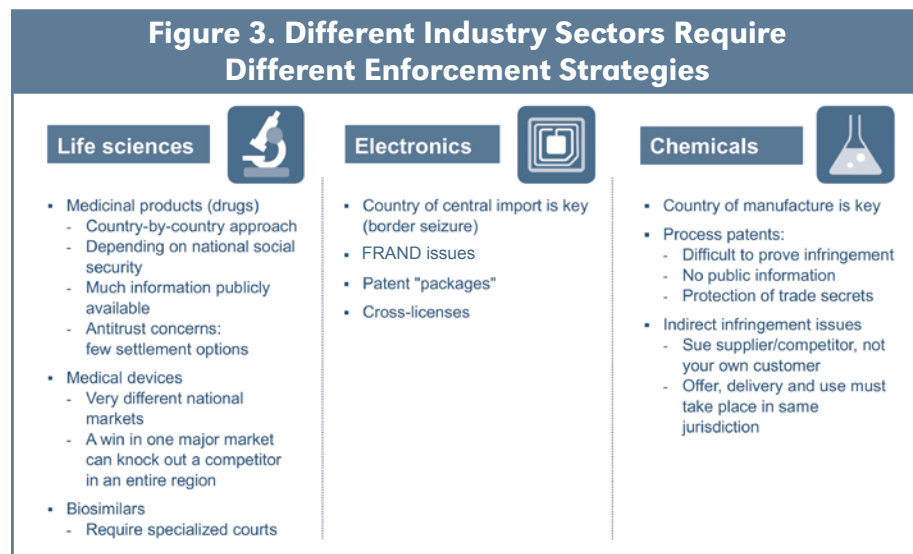
There are specific legal issues encountered with patents in the electronics sector, such as FRAND (fair, reasonable and non-discriminatory licensing conditions), because most often the dispute involves the enforcement of standard essential patents, or SEPs. This is a specific area of law that is not encountered when enforcing patents for biosimilars or drugs, but that is very typical for electronics.

Another typical feature of enforcing patents in the electronics sector is that many disputes are settled via cross-licenses. This is because the parties involved in an electronics dispute both own patents that are relevant to the other party's products and that both parties can benefit from. This means there are a lot of opportunities for cross-licensing. In the drug sector, in contrast, licensing opportunities are much less available: it is mostly a legal

issue between generics and innovators, and cross-licensing opportunities are close to nil.

3.3 Chemicals

In the chemicals sector, companies sell compounds and materials that very often are no longer protected by patent—only their manufacturing processes are. Chemical patents often protect improved manufacturing methods that reduce the cost of either manufacturing or the equipment and machinery for their manufacture, or that improve the products incrementally via their composition and efficacy. For this type of patent enforcement, it



is very common and even necessary to sue in the country of manufacture.

First, this is because process patents are most efficiently asserted in the place where the infringing manufacturing process takes place. When such an action is successful, the worldwide distribution originating from that manufacturing site is blocked. Second, because the manufacturing site is—certainly for non-regulated chemicals—the only place where proof of the infringing manufacturing method can be obtained.

Chemical companies do not like risks because their installations require heavy investments that take years to build and many more years to amortize. A patent infringement risk will often be avoided “at all costs,” often via cross-licensing or other alternative dispute mechanisms. Patent disputes in this sector are most often conducted at another level.

The level where few disputes arise is where competitors are on the same level of the production and distribution chain. But there is another level where competition can be fierce and where patents are asserted: those who supply the manufacturers with raw materials and additives. To sue those suppliers, patent owners will want to rely on indirect infringement actions rather than direct infringement. Direct infringement would require them to attack their own customers, which is challenging. Instead, a patent attack based on indirect infringement

allows them to sue the customer’s supplier, who most often is the direct competitor of the patent owner. In this way, they can sue parties who are higher up in the supply chain and avoid the chemical plants and industries themselves, which are very risk averse.

Takeaways

- Get your enforcement strategy right in line with market and sector needs.
- Stay in the driver’s seat in a patent dispute by taking the initiative in time, regardless of whether you are the patentee or the alleged infringer, as it is the best way to make use of all the options.
- Don’t let the dispute become personal. Allow counsel to step in and take the heat so that the SME’s management has the freedom to think about the company’s best interests.
- Use counsel as a filter and a communication coordinator. Beyond developing the necessary legal arguments, counsel can be someone who thinks strategically, increasing the chances of winning and freeing up considerable management time.
- Discuss litigation budgets with outside counsel early on, considering the costs of the opposing side as well. ■

Available at Social Science Research Network (SSRN): <https://ssrn.com/abstract=3582892>.