

INTERNATIONAL PANEL

Cost Comparisons: Germany

BY MANFRED BOHLIG*

The evaluation of whether to license or to litigate is different for the patentee and the infringer. The patentee, if he prefers to work and exploit his patented invention, is primarily interested in enjoining an illegal competitor. This means that the time factor, the expected length of litigation, weighs heavily in the patentee's assessment of the situation. For the infringer, the amount of potential damages looms large in his evaluation of the situation.

A patent infringement action must always be brought in the ordinary courts. The Patent Office has no jurisdiction in infringement cases.

The fastest way for the patentee to proceed is to try for a preliminary injunction. Such an injunction will issue, if successful, within the course of three or four weeks. Cases have been reported where the preliminary injunction issued within a day or two, e.g. in situations where an infringing article was on exhibit at a trade fair (and then the injunction was granted only for the duration of the fair).

With these narrow time frames one would expect that the preliminary injunction is the option chosen by most patentees, in particular since such an injunction is enforceable at once whether or not it is appealed. Actually, this is not the case. Applications for a preliminary injunction in a patent infringement case are quite rare in Germany. The reason is that the courts are extremely hesitant to issue such an injunction on less than a full hearing. From a practical point of view, a preliminary injunction will issue only in a case where both the patent and the infringing device have been the subject of previous litigation.

In the vast majority of cases, our patentee will have to file an infringement action in a District Court (Landgericht) that hears patent cases. These are only 9 out of the 99 District Courts in the Federal Republic. The business in these District Courts is distributed in such a way that all patent cases come up before the same three-judge panel. Since these judges spend the major part, if not all, of their time hearing patent and often also trademark cases, a considerable amount of judicial expertise in patent law is available. So is the mental willingness to attempt to understand, discuss, and question technical and scientific arguments and explanations.

The remedies available are an injunction, accounting, and damages. It will take nine months to two years to obtain a judgement in the District Court, the average being somewhere around 15 months.

*Preu, Bohlig & Partners, Munich, Germany.

An appeal to the Court of Appeals is available as a right, which possibility is used in the majority of cases. About one year is the time the litigants will spend in the Court of Appeals unless the Court of Appeals appoints an expert in the particular art and instructs him to conduct tests on certain specific questions and to report his findings. This together with cross-examining the expert will substantially prolong the litigation and may add a second year to the duration of the appeal.

Bank Guarantee

Taken together, patent infringement litigation in both the District Court and the Court of Appeals must be assumed to take about two and a half years. The District Court decision can be made enforceable by plaintiff depositing a bank guarantee in an amount fixed by the court.

Such enforcement is at the peril of plaintiff because he has to cover any and all damage caused to defendant should the District Court decision be reversed. The decision by the Court of Appeals is, however, enforceable without depositing bond. The risk to plaintiff is substantially reduced in that, should the Supreme Court overrule the Court of Appeals, his entire liability is that he has to make restitution under the theory of unjust enrichment of whatever he has received under the judgment.

A further appeal to the Supreme Court on questions of law is available provided the amount in controversy is in excess of DM 40,000 (which is practically always the case in patent matters). However, it is possible for the Supreme Court to deny this further appeal if at least a 3:2 majority of the five-judge panel holds the view that the case has no essential legal significance. The amount of time consumed by a further appeal to the Supreme Court varies greatly but two years would seem to be a reasonable assumption.

All in all, our discussion of the time factor leads us to the conclusion that a patentee, aside from the cases fit for a preliminary injunction where justice is swift indeed, will have to litigate for about one and a half years before he can hope to have an enforceable judgment. It may be four years until he has obtained a final Supreme Court decision.

Concerning damages, the guiding rule in Germany is that the measure of damages is that amount that would put the patentee into the same position as if there had been no infringement. There are no treble but only "simple" damages for patent infringement.

It is the privilege of the patentee to measure his damages in any of the following ways:

(a) Loss of earnings, (b) earnings made by the infringer, and (c) payment of a reasonable royalty for the infringing sales.

Under method (a) plaintiff has to prove that the infringing business would have gone to him but for the infringer. Method (b) presents plaintiff with difficult accounting questions as to allocation of overhead. It is therefore not surprising that method (c) "reasonable royalty" is by far most often used to compute the amount of damages.

The net result is that the risk is little as far as damages are concerned. Basically the infringer does not pay more for past infringement than the honest licensee had to pay in royalties. This situation is not deemed satisfactory by patentees. A few years ago one of the larger chemical manufacturers in Germany made an attempt to change this situation and asked the Supreme Court to order the defendant/infringer to pay higher damages than the comparable reasonable royalty. The Supreme Court rejected this attempt (BGH GRUR 1980, 84); more recently it allowed a certain increase over the reasonable royalty to account for the fact that licensees take out licenses under patents that may be invalid and concerning technologies where the economic viability may not yet be proven (BGH GRUR 1982, 286).

If we attempt to come to an interim evaluation of the pros and cons of litigation and licensing, it would seem that the possibility of an injunction is a sharp weapon if the patent has three or more years to run. On the other hand, the fear of damages will hardly force an otherwise unwilling competitor to seek a license, unless litigation expenses will cause him to reevaluate his position.

Before discussing the cost of patent litigation, mention must be made of one aspect of the German patent system that it seems to share with the Japanese: the courts where infringement actions are tried have no jurisdiction over the administrative acts of the Patent Office and, therefore, also not over the validity of the patent-in-suit.

In an infringement action, the courts must regard a patent as valid unless and until it has been nullified. Jurisdiction over the validity of patents is centered in the Federal Patent Court in Munich and anyone has standing to bring an action for the retroactive nullification of a German patent that has not yet expired.

Invalidity

If a person warned or accused of infringement wants to raise the invalidity of a patent as a defense, he must file a separate nullification action in the Federal Patent Court which, of course, adds considerably to the cost of litigation. Also, he must attempt to persuade the court where the infringement action is pending to suspend this action until a decision in the nullification case is handed down. Such a stay of the proceedings is made only if the court comes to the conclusion that the nullification action has a good chance of being successful.

We shall now consider the cost of patent litigation using the example on which my colleagues have based their computation of litigation expenses. To refresh

our memories: Patentee A has patents on a certain ski binding in a number of countries. The patents have 12 years to run. The market potential in all these countries is about 30,000 ski bindings per year which at ex-factory price of US\$30 apiece makes an annual volume of about US\$1,700,000. The annual volume to end-users at a suggested retail price of US\$48 will be some US\$2,700,000 per year.

On a previous model, A had granted a license at 6% royalty with an annual minimum license of US\$24,000.

Competitor B has developed an improved version of A's patented ski binding which he hopes will capture one-half to one-third of the market potential. B's patent attorneys fear that the improved version still falls under A's patents but are of the opinion that the patents are invalid or can be nullified.

In Germany, court costs and attorneys fees are regulated in a statutory fee schedule. The size of the fees is determined by the amount in controversy. It is, of course, possible to come to an agreement with the attorney concerning the size of his fees but only to the extent that the remuneration agreed upon is larger than that payable under the statutory fee system. We shall therefore base our following cost computation on the statutory system. The losing party must reimburse the other side for court costs and attorneys fees, but only for the statutory fees.

The amount in controversy is suggested by plaintiff and fixed by the court, usually in accordance with the figure suggested, provided the defendant did not object and the figure suggested is within the usual guidelines.

Market Potential

All of the market potential has to be taken into account if B manufactures within Germany. This means a value of about US\$800,000 per year (DM 2 Mio) in sales. Although the life of the patent is for another 12 years, it would be unreasonable to take more than a maximum of five years into account. Finally, the patented device presumably covers less than the entire ski binding and profits are only a small fragment of sales.

Under these circumstances, if A suggested an "amount in controversy" of about US\$400,000 (DM 1 Mio.), B would in all likelihood not object and the court would regard this figure as being not too low. We shall therefore base our cost analysis on this figure.

Under the German Rules of Civil Procedure the winning party may recover from the other side all of the statutory attorney's fees and court costs, as well as some of the other expenses such as the honorarium of court appointed experts, etc., which we shall disregard for the sake of simplicity. Also, if a Patentanwalt cooperates in the litigation, as is usual, a certain portion of his fees (usually between one half and one third) may be recovered from the other side.

Assuming as we must that the case in the District Court could not be disposed of by summary judgment on the record but required some sort of receiving evidence, the attorney handling the litigation is entitled to charge three fees (basic fee, fee for arguing in court, evidence fee) of DM 5,730—each for US\$2,500. The Patentanwalt will charge the same, bringing the

total to some US\$15,000. Attorney's fees and one Patentanwalt fee can be recovered from the other side if A wins. Should A lose the litigation he will have to reimburse B for all of his attorney's fees, for one Patentanwalt fee, and will have to bear all of the court costs, bringing his litigation exposure to about DM85,000 (about US\$35,000), not counting incidental expenses such as travel and secretarial work.

Court of Appeals

On appeal the system of computing litigation costs remains the same in principle with the difference that court costs and attorney's fees are increased by roughly one third. On the other hand the Court of Appeals does not frequently receive new evidence. The result that few fees accrue. This means that total cost exposure for the losing party is again in the neighborhood of US\$35,000, and is increased to about US\$45,000 if evidence is taken. A further appeal to the Supreme Court will add another US\$40,000 to litigation cost exposure, raising the total to almost US\$110,000, or DM 260,000.

Exposure will become larger even if nullification proceedings are instituted in the Federal Patent Court and appealed to the Supreme Court level, although these courts use conservative amounts in controversy. We shall assume that the nullification litigation can also be done at the same DM 1 million amount in controversy which means that litigation cost exposure in the Federal Patent Court will be between US\$10,000 to US\$15,000, depending on whether a Patentanwalt or

an attorney-at-law handles the litigation. In the Supreme Court total attorney's fees and court costs aggregate about US\$45,000. Taking into account the fees for a court-appointed expert, the appeal to the Supreme Court in nullification proceedings may involve as much as \$50,000 to \$60,000.

Adding \$65,000 (DM 156,000) to the litigation exposure in the infringement action increases potential maximum cost exposure with 2 appeals to the Supreme Court to a figure of some \$175,000 (DM 400,000).

This means that litigation or not is potentially a \$175,000 question for A and B since the winner in our double-pronged litigation is reimbursed for most of his expenses.

How will A and B fare if they conclude a licensing agreement? Using the previous license granted by A as a yardstick, B will have to pay for his manufacture in Germany a minimum annual royalty of \$24,000—which would go up to \$100,000 per year if he indeed captures one half of the market potential. These figures may translate into considerable amounts of money over the life of the patent.

Advice to the client is difficult indeed under this set of facts. If a realistic and even skeptical evaluation of prior art leads to the conclusion that the patent will with strong probability be nullified, then B may consider to litigate.

On the other hand, B will be well advised to seek a license should the prior art evaluation show that the chances of nullifying A's patent are not strongly in favor. In this event B should attempt to negotiate the right to terminate the licensing agreement after five years, at the latest.