SMEs And The Patent Challenge

By Tobias Wuttke

After the Pre-diagnosis Has Been Carried Out

In Germany, SMEs have an increasing patent awareness. This is due to the fact that Germany is the most important venue for patent litigation in the EU. Many landmark patent litigation cases attract the attention of the media so that the patent world is no longer a hidden world for most SMEs. The main driver for the increasing patent awareness is risk management, whereas securing exclusivity for generated innovation comes second.

II. "WIPANO"—A New Governmental Policy Since January 1, 2016

The German Ministry for Economy and Technology paved the way for a new governmental patent policy for SMEs. This policy was launched under the brand "WIPANO" (=Knowledge and Technology Transfer through Patents and Standards) and became effective on January 1, 2016. The underlying rationale of WIPANO is to enable SMEs to gain a strategic understanding of the patent system and to increase patent awareness.

The WIPANO policy is directed at SMEs, *i.e.* any company having an establishment or factory in Germany with a maximum of 250 employees and a maximum yearly turnover of EUR 50 million or a yearly balance sheet of no more than EUR 43 million in total. These ceilings apply to the figures for individual firms only. A firm that is part of larger group may need to include staff headcount/turnover/balance sheet data of said group too. The definition of SME as used by WIPANO corresponds to the official EU definition (cf. Recommendation 2003/361/EC).

WIPANO only supports "first-timers." This means that only such SMEs are eligible for promotion intending to protect their R&D results by patents for the first time ever. Eligibility under the program is, however, also given if the last patent filing dates back more than five years. Under the WIPANO program the entire process of a patent filing is sponsored, that is from the discussion of the idea until its monetization provided, however, that third party providers are retained (in particular patent attorney, attorney-at-law). Each milestone during such process can be sponsored up to the maximum levels in Table 1.

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It is very important to note that the WIPANO program is not available with retroactive effect. Hence, the request for sponsoring (and its subsequent approval) must precede any patent filing. The filing of the request for sponsoring can be made online with the average duration for the approval process being four weeks.

III. The situation at the German Patent and Trademark Office and the German Patent Act

The German Patent and Trademark Office ("GPTO") does not have any specific provisions regarding SMEs. However, the GPTO—with its three service locations Munich, Berlin and Jena—together with the 22 national "patent information centers" (*Patentinformationszentren*) offers support directed to the needs and requirements of SMEs. In this respect, the cost-free "first advice for inventors" (*Erfindererstberatung*) is noteworthy. This institution is organized by the Chamber of the German Patent Attorneys (*Patentanwalt-*

Table 1. Patent Milestone Sponsorship Levels

Package 1	Rough review of the invention	EUR 375
Package 2	Detailed review of the invention: Part A: Comprehensive review of the invention over the prior art Part B: Cost-benefit-analysis (*inter alia* review of the potential for commercialization)	EUR 1.200
Package 3	Strategy - advice and coordination of patent filing (first filing and one further filing)	EUR 2.000
Package 4	Patent filing (official fees + fees for patent attorneys)	EUR 10.000
Package 5	Activities concerning monetization	EUR 3.000

skammer) in cooperation with the national patent information centers on a regular–at least monthly–basis. Under the framework of the first advice for inventors, patent attorneys educate inventors free of charge on general principles of the patent landscape.

The German Patent Act contains the following provisions which are of interest to SMEs:

In the first place, the principle of "procedural aid" (sections 129 *et seq.* German Patent Act in connection with sections 114 *et seq.* German Procedural Code) is to be mentioned. If the relevant statutory requirements of this principle are met, the official patent office fees and the fees of the patent attorney in charge are paid by the state treasury. The principle of procedural aid is available for examination, opposition, limitation and revocation proceedings, as well as annuity payments. An SME is eligible for procedural aid if (i) it cannot afford the costs due to its financial situation and (ii) if there is a sufficient probability for success. In practise, however, in particular the first requirement proves to be a very high hurdle which is difficult to overcome for SMEs.

In addition, Section 23 German Patent Act offers a fee reduction for annual fees of 50 percent if the applicant/patentee files a corresponding written "License of Rights-declaration" (*Lizenzbereitschaftserklärung*) with the GPTO. This License of Rights-declaration entails that the applicant/patentee must license its patent application/granted patent against payment of a reasonable royalty to anyone who is interested in using the technology for which protection is sought for. Of course, the available discount of 50 percent comes at a high price for SMEs, since they lose the exclusivity of their innovation which is oftentimes the key driver for their commercial success. It is thus not surprising that SMEs do not often make use of such instrument (which in practice is mostly used by industries where the patent litigation activity is still conceived as low).

Last, but not least, it is important to mention the "German Utility Model" system in the context of SMEs. The German utility model is available as a (cheap) alternative to the patent system. A German utility model is an unexamined exclusivity right for technical teachings having the same protection requirements as patents. However, it is not available for method claims and has a limited term of protection of 10 years. The official fees for filing a German utility model are very affordable, namely EUR 40 for traditional and EUR 30 for e-filing. From an enforcement perspective, the German utility model is a sharp weapon affording the same remedies to its owner as a German patent. In practice, it is oftentimes recommendable to combine both systems, since it is possible to protect one invention with one patent and one (or even more) utility models. Thus, there is no prohibition rule of double protection for patents and utility models.

IV. How Do SMEs Use IP in Germany?

The way the patent system is used by SMEs in Germany is changing. In former times, SMEs used the patent system mostly to ensure their freedom to operate. Nowadays, SMEs are also interested in conveying a twofold message to the market with their patent filing: firstly, such filing shall signal to the market that this company is able to break new ground and secondly, that such new ground is exclusively protected (deterrent effect). Ultimately, many SMEs are financed by investors. Insofar, building investor value is a further aim of the patent filing. In this respect, the above-mentioned German Utility Model system plays an important role. In light of the low filing and annuity fees it is possible to build up a large portfolio at a very reasonable price.

V. SMEs and Patent Enforcement

SMEs are still rarely seen in court proceedings relating to patent matters. This is due to the fact that such proceedings are still too expensive for SMEs. Under the German bifurcated system, proceedings for infringement on the one hand and invalidity on the other hand are separated. This entails that for most patent disputes two proceedings are conducted in parallel, also meaning a duplication of costs. Theoretically, the German Patent Act offers some relief in section 144. This rule relates to the amount of the "value in dispute" (*Streitwert*). Under German procedural law, the value in dispute is used to determine the statutory court fees and the statutory attorney fees. Pursuant to section 144 German Patent Act, a party which due to its economic situation is not able to pay the court fees and its attorney fees based on the actual value in dispute may request that the value in dispute be lowered for this party (not for the adverse party.) Under the governing case law it is, however, very difficult to obtain such reduction of the value in dispute under section 144 German Patent Act. Consequently, this rule has more textbook character and no real practical scope of application.

VI. Conclusion

Germany supports SMEs in various aspects of their journey through the patent jungle. However, what is missing is a provision in the German Patent Act addressed specifically to the situation and needs of SMEs. Such provision should provide a fixed discount on all official fees and a fixed discount for patent enforcement (= guaranteed reduction of the value in dispute) with a clearly foreseeable cost risk. If such provision were to be introduced, it would be easy to predict that the patent awareness of SMEs and their use of the patent system would dramatically increase. ■

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