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Patent Litigation Strategies

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1. Executive summary

In today's global market place companies are struggling to adapt to the emerging knowledge economy. Enforcement of patent rights is often complicated, expensive and time consuming; something which could leave the full potential of the patent protection unexploited. The use of patents needs to be efficient in order for the company to extract maximum value from its rights. The hypothesis is that large manufacturing companies need pro-active enforcement strategies to utilize their patents to the most value.

This thesis outlines the judicial framework surrounding patent infringement in four different jurisdictions; Sweden, U.S, Germany and China. A more clear understanding of risks and benefits can thereby be discovered. This understanding will ensure the relocation of resources to the most efficient areas when enforcing and utilizing patents. By examining the approach companies have towards the use of their patents, some key areas when dealing with patent litigation strategy are assessed and a framework assisting a company to utilize its IP constructed.

The judicial frameworks in the examined jurisdictions showed that TRIPS has unified the territorial patent systems in regards to patent enforcement. However, there are several issues that are not regulated in the treaty, resulting in different practices in the different jurisdictions. Some important factors not regulated in TRIPS concern the dependency of the verdict, the costs and the time of the procedure. In regards to these factors the U.S have shown to be an expensive place for patent litigation, this is foremost due to the utilization of jury trials and the extensive discovery phase. Germany has shown to be a place favorable to the patentee who can pursue rapid litigation at a low cost. The treatment of validity questions in a forum separate from the infringement procedure can be confusing to foreign counsels and German courts still only utilize limited options for discovery. China is struggling to adapt to the demands of TRIPS. The requirements are implemented in the Chinese legislation; however, in reality there is still a lack of sufficient IP protection outside of the large rural areas. In Sweden there is an increasing time to reach a verdict, which is starting to affect companies in their view of litigation. At the moment, some estimates of the average time to verdict suggest three to four years to get a first instance decision.

The approach large manufacturing companies have to patent litigation often displays a lack in the sense of not being pro-active enough. It seems that U.S based companies have a higher focus on these issues than European companies, at the moment. By being pro-active in regards to patent enforcement and patent litigation a company can minimize the risks of situations where it might be infringing on the patents of others. Pro-activity will also offer control of situations where other companies infringe. It can create a more cost efficient management of the companies IPRs, in the sense that the IPRs are utilized to reach the company's business goals rather than being used only as a passive indicator for innovation and value. A company can gain valuable time in an infringement situation by, in an early stage, initiating procedures and allocating funds and responsibilities for managing the patents in a more active manner. Without these preparations the company is unprepared in an infringement situation, thus it might becoming passive in regards to both risks and opportunities. The cost of this passivity can greatly shadow the initial cost of managing IPRs.

2. Table of Contents

1. Executive summary	2
2. Table of Contents	3
3. Abbreviations	6
4. Introduction	7
4.1. Why does strategies for patent litigation matter?	7
4.2. Research question	7
4.3. Structure of thesis	8
4.4. Method	8
4.5. Delimitations	9
5. Patent enforcement framework	10
5.1. TRIPS	10
5.1.1. Infringement	10
5.1.1.1. Direct infringement	10
5.1.1.2. Indirect infringement	10
5.1.2. Enforcement	11
5.1.2.1. Civil proceeding	11
5.1.2.1.1. Procedural limitations	11
5.1.2.1.2. Defenses against claims of patent infringement	11
5.1.2.1.2.1. Invalidation	11
5.1.2.1.3. Remedies for patent infringement	11
5.1.2.1.3.1. Injunctions	11
5.1.2.1.3.2. Damages	11
5.1.2.1.3.3. Measures to preserve evidence	12
5.1.2.1.4. Alternative proceedings	12
5.1.2.1.4.1. Border measures against counterfeiting products	12
5.1.2.1.4.2. Criminal proceeding	13
5.2. Sweden	14
5.2.1. Infringement	14
5.2.1.1. Direct infringement	14
5.2.1.1.1. Doctrine of equivalence	14
5.2.1.1.2. Exhaustion of rights	14
5.2.1.2. Indirect infringement	15
5.2.1.2.1. Contributory	15
5.2.1.2.2. Induced	15
5.2.2. Warning letter	16
5.2.3. Enforcement	17
5.2.3.1. Civil proceeding	17
5.2.3.1.1. Procedural limitations	17
5.2.3.1.1.1. Choice of jurisdiction	17
5.2.3.1.1.2. Re-constructing claims	18
5.2.3.1.1.3. Limitation time	18
5.2.3.1.2. Defenses against claims of patent infringement	18
5.2.3.1.2.1. Re-examination/opposition	18
5.2.3.1.2.2. Invalidation	19
5.2.3.1.3. Remedies for patent infringement	19
5.2.3.1.3.1. Injunctions	19
5.2.3.1.3.2. Damages	20
5.2.3.1.3.3. Measures to preserve evidence	21
5.2.3.2. Alternative proceedings	21
5.2.3.2.1. Border measures against counterfeiting products	21
5.2.3.2.2. Criminal proceeding	21
5.3. The United States (U.S)	23
5.3.1. Infringement	23
5.3.1.1. Direct infringement	23

5.3.1.1.1.	Doctrine of equivalence	23
5.3.1.1.2.	Exhaustion of rights	23
5.3.1.2.	Indirect infringement	24
5.3.1.2.1.	Contributory	24
5.3.1.2.2.	Induced	24
5.3.2.	Warning letter	24
5.3.3.	Enforcement	25
5.3.3.1.	Civil proceeding	25
5.3.3.1.1.	Procedural limitations	25
5.3.3.1.1.1.	Choice of jurisdiction	25
5.3.3.1.1.2.	Re-constructing claims	26
5.3.3.1.1.3.	Limitation time	26
5.3.3.1.2.	Defenses against claims of patent infringement	26
5.3.3.1.2.1.	Re-examination/opposition	26
5.3.3.1.2.2.	Invalidation	27
5.3.3.1.3.	Remedies for patent infringement	27
5.3.3.1.3.1.	Injunctions	27
5.3.3.1.3.2.	Damages	27
5.3.3.1.3.3.	Measures to preserve evidence	28
5.3.3.2.	Alternative proceedings	28
5.3.3.2.1.	Border measures against counterfeiting products	28
5.3.3.2.2.	Criminal proceeding	29
5.4. Germany		30
5.4.1.	Infringement	30
5.4.1.1.	Direct infringement	30
5.4.1.1.1.	Doctrine of equivalence	30
5.4.1.1.2.	Exhaustion of rights	31
5.4.1.2.	Indirect infringement	31
5.4.2.	Warning letter	32
5.4.3.	Enforcement	33
5.4.3.1.	Civil proceeding	33
5.4.3.1.1.	Procedural limitations	33
5.4.3.1.1.1.	Choice of jurisdiction	33
5.4.3.1.1.2.	Re-constructing claims	34
5.4.3.1.1.3.	Limitation time	34
5.4.3.1.2.	Defenses against claims of patent infringement	34
5.4.3.1.2.1.	Re-examination/opposition	34
5.4.3.1.2.2.	Invalidation	34
5.4.3.1.3.	Remedies for patent infringement	35
5.4.3.1.3.1.	Injunctions	35
5.4.3.1.3.2.	Damages	35
5.4.3.1.3.3.	Measures to preserve evidence	36
5.4.3.2.	Alternative proceedings	36
5.4.3.2.1.	Border measures against counterfeiting products	36
5.4.3.2.2.	Criminal proceeding	36
5.5. The Peoples Republic of China		38
5.5.1.	Infringement	38
5.5.1.1.	Direct infringement	38
5.5.1.1.1.	Doctrine of equivalence	38
5.5.1.1.2.	Exhaustion of rights	39
5.5.1.2.	Indirect infringement	39
5.5.2.	Warning letter	40
5.5.3.	Enforcement	41
5.5.3.1.	Civil proceeding	41
5.5.3.1.1.	Procedural limitations	41
5.5.3.1.1.1.	Choice of jurisdiction	41
5.5.3.1.1.2.	Re-constructing claims	42
5.5.3.1.1.3.	Limitation time for bringing an infringement action	42
5.5.3.1.2.	Defenses against claims of patent infringement	42
5.5.3.1.2.1.	Re-examination/opposition	42
5.5.3.1.2.2.	Invalidation	42
5.5.3.1.3.	Remedies for patent infringement	43
5.5.3.1.3.1.	Injunctions	43
5.5.3.1.3.2.	Damages	44

5.5.3.1.3.3. Measures to preserve evidence	45
5.5.3.2. Alternative proceedings	45
5.5.3.2.1. Border measures against counterfeiting products	45
5.5.3.2.2. Criminal proceeding	45
5.5.3.2.3. Administrative proceeding	45
6. Arbitration	47
6.1. Enforcement	47
6.2. Benefits	47
6.3. Remedies and arbitrable issues	47
6.4. Effects on later proceedings	48
7. Litigation strategies	49
7.1. Starting-point	49
7.1.1. The importance of a clear goal	49
7.1.2. Communication	50
7.1.3. Being active or passive	51
7.1.4. Awareness creates opportunities	52
7.2. Definition and discovery	53
7.2.1. Infringement by the company	54
7.2.1.1. Deliberate infringement	54
7.2.1.2. Involuntary infringement	55
7.2.2. Infringement by other companies	56
7.2.2.1. Infringement by competitors	56
7.2.2.2. Infringement by customers	56
7.2.2.3. Infringement by actors in the same research area	56
7.2.2.4. Infringement by actors in other research areas	57
7.3. Pro-active approach	57
7.3.1. Necessary processes	58
7.3.2. Managing infringement by the company	58
7.3.3. Monitoring the market for infringement by others	59
7.4. Internal structure	61
7.4.1. Costs	61
7.4.2. Responsibilities	62
7.4.3. Positioning and information channels	63
7.4.4. Organizational options	63
7.4.5. Company status	64
7.5. Strategic possibilities	65
7.5.1. Choice of jurisdiction	65
7.5.2. Choice of opponent	67
7.5.3. Choice of response	67
7.5.4. Choice of proceeding	68
8. References	70

3. Abbreviations

CBP	Customs and Border Protection (United States)
EC	European Community
EEA	European Economic Area
EEC	European Economic Community
EP C	European Patent Convention
EPO	European Patent Office
EU	European Union
GPO	German Patent Office
IAM	Intellectual Asset Management
ICE	IPR Coordination Center (United States)
IP	Intellectual Property
IPR	Intellectual Property Right
IPRED	EC Directive on Enforcement of Intellectual Property Rights
ITC	United States International Trade Commission
PRB	Patent Reexamination Board (China)
PRV	Patent och Registreringsverket (Swedish Patent Office)
SIPO	State Intellectual Property Office (China)
SPC	Supreme People's Court (China)
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
USPTO	United States Patent & Trademark Office
WTO	World Trade Organization

4. Introduction

4.1. Why does strategies for patent litigation matter?

In today's global market place companies are struggling to adapt to the emerging knowledge economy. Enforcement of patent rights is often complicated, expensive and time consuming; something which could leave the full potential of the patent protection unexploited. The use of patents needs to be efficient in order for the company to extract maximum value from its rights. Large manufacturing companies in Sweden do often utilize their patent rights primarily in a passive manner, rather than in an active manner. The main application of a patent is often seen as an indicator of value and innovation. Licensing is generally not a developed area of profits and the patent departments are often considered mostly as costs by business units, who are utilizing the departments on a consultancy basis. This approach might be placing the company at risk of not being able to utilize the protection of their Intellectual Property Rights (IPR), since they will be too passive to fully evaluate infringements as they occur.

4.2. Research question

The research problem is to evaluate what strategic options a large manufacturing company should consider in order to create an efficient strategy for management of patent infringement. This applies both when the company risks infringing on others rights and when another company infringes on patents of the company.

The hypothesis of the thesis is that the patent litigation arena is multi-jurisdictional; thus, an understanding of different legislation in different countries can assist a company to avoid pitfalls in litigation. Manufacturing companies operating on the global market additionally need pro-active enforcement strategies in order to fully utilize their patent rights. These companies often employ short-sighted planning and have a high utilization of external consultants, which means that they risk becoming passive when the cost of a potential litigation becomes known. This problem is often caused by a lack of processes and procedures in the organization of the company. Without these pro-active measures the burden of an infringement often becomes so heavy that it will appear futile to pursue the matter, from a business perspective. This is especially true if the full burden of litigation is placed on a single business unit within a company since the units have more limited resources to react to the infringement than the mother company.

Thus, the aim of the thesis is to see what jurisdictional limitations and possibilities there is in the chosen strategic jurisdictions. The thesis also aims to examine how large manufacturing companies use their patents in an infringement situation and how they reason around infringement in a broader sense, both in regards to infringements of the company and in regards to infringement by other companies. Finally, the thesis aim to explore which aspects of litigation that large manufacturing companies find to be the most important, in regards to managing patent infringement.

4.3. Structure of thesis

The thesis is divided into two sections. The first part examines relevant legal possibilities and limitations in an infringement situation. Four strategic jurisdictions have been examined; Sweden, the United States (U.S), Germany and China. With the exception of Sweden, these jurisdictions represent three of the world's largest markets. Even though there are extensive international agreements regulating patents, primarily the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), there are some major differences in these jurisdictions. Some of the differences are structural, others concerns the level of implementation of international agreements or the development beyond these regulations. An example can be taken in China, which recently implemented the demands set out by TRIPS, but now struggles to put them it into action. Understanding the business effects of these judicial differences will enable the company to locate its resources to the most efficient areas, when enforcing and utilizing patents.

The second part of the thesis focuses on what strategic options there are to a company, and what it can do to avoid a costly infringement suit. The starting-point is to answer the question of why a company should pay attention to the threat of litigation before such a threat occurs. The thesis continues to define the concept of infringement, in order to show that infringement contains more aspects than usually recognized. The section discusses both infringements where the company is the patentee and infringements where others rights are infringed by the company. The value of a proactive approach is evaluated by looking at the processes needed for the company to manage relations to customers, competitors and other potential infringers. That is followed by a discussion of how such an approach can be implemented by the creation of an internal structures. Finally, the strategic possibilities to enforce a patent when an infringement is a fact are evaluated, focusing on the questions of who to litigate against, where to litigate and which means that will be the most efficient.

4.4. Method

The material for the first section of the thesis was used to create a comparative legal analysis of the chosen jurisdictions. This section is developed utilizing legal dogmatic towards the material. It is based primarily on TRIPS, which governs the four jurisdictions in regards to patent enforcement, and on the legal texts of the jurisdictions. Patent acts and supplementary legislation were used. Case law was utilized predominantly in regards to the U.S, but also for Germany and Sweden. Chinese courts are not bound by precedent cases,¹ which mean that cases have been used to spot trends and development, but not as a legal source.

Doctrine and articles were used to form a background and understanding for the complexity and discussions of patent infringement. These sources were also used to develop the argumentation. Finally, interviews were used to further the understanding of the implementation and interpretation of the law in the four jurisdictions.

¹ Interview with Quing G, Attorney of Liu, Shen & Associates, Beijing, 100322.

The second section, litigation strategies, is developed partly based on the results of the first part of the thesis. It also builds on interviews held with patent, IP and legal departments of large manufacturing companies, legal expertise at Swedish, American and Chinese law firms and consultants. In addition to this, the strategy framework was created with the help of management literature and articles.

4.5. Delimitations

Companies today work on a global and highly integrated arena. In order to fully approach the patent litigation field it is a necessity to implement a business perspective. The line between a customer and a competitor or between a collaborator and an infringer can sometimes be hard to draw. Companies become more multi-jurisdictional over time. There are often research and development (R&D) established in one country, collaborations and joint ventures in another country and production and sales in a third country. The traditional judicial arena – the national jurisdiction – has thus become more complicated to operate on, today demanding the skill of taking all concerned jurisdictions into account. The national legislation provides only partial guidance to decisions relating to infringements. The large part of the considerations is made from a more pragmatic business perspective where the pros and cons of the individual business unit in question are in focus.

The field of patent litigation is highly contextual and too wide to fully examine in this thesis. The thesis is therefore oriented towards high-lighting relevant considerations rather than to solve case-specific questions, usually individual to their nature. The aim has primarily been to create a broad survey of the litigation area, emphasizing breadth before depth in order to serve as a framework for a company or individuals wanting to emerge themselves in the area of patent litigation.

The thesis has been limited to four jurisdiction; Sweden, U.S, Germany and China. The choice of these jurisdictions was predominantly due to their market size and importance in the patent litigation field. These jurisdictions also provide a good view of different legislative systems and levels of development in regards to patent enforcement.

The scope of the thesis is further limited by the choice to only target large manufacturing companies. This type of companies differs from smaller companies, for example in regards to organization and resources. This should be kept in mind when reading the thesis.

5. Patent enforcement framework

5.1. TRIPS

On a global scale, the patent system is governed by several agreements. The Paris Convention of 1883 was the first agreement between nations to set out a minimum requirement of rules regarding patents. However, the Paris Convention did not provide necessary intellectual property (IP) protection in development countries, nor did it allow adequate measures to be taken against international trade with counterfeiting products.² TRIPS has since 1996 improved and enlarged the regulations within World Trade Organization (WTO), for example with sharper measures against patent infringement. WTO has 153 member states (July 2008), representing more than 95% of the total world trade.³ The mandatory provisions of the TRIPS agreement are generally respected in the WTO member states. Some variations are allowed in the application.⁴ The WTO members are also free to protect a wider interest of the patentees than provided for in TRIPS. TRIPS has three divisions in respect to patents. The first part sets out basic principles, such as national treatment and most-favored-nation treatment. The second part establishes standards for patents and ensures a minimum length of the protection. The third part establishes enforcement processes, demanding governments to ensure that patent rights can be enforced, that the penalties are harsh enough to prevent violations and that court decisions as well as administrative decisions can be appealed.

5.1.1. Infringement

5.1.1.1. Direct Infringement

Direct infringement is associated with a direct bond between the infringer and the patented product or process. TRIPS provides for a patent to confer some defined exclusive rights to its owner.⁵ It should be noted that the exclusive right does not imply monopoly – a patent right is a negative right, providing protection against the use of others. If it is a product patent, third parties, without the owner's consent, are prevented from the acts of making, using, offering for sale, selling or importing the product for these purposes. If it is a process patent, third parties are prevented from using the process, and from using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process. The patentee also has the right to assign or transfer the patent by succession, and to conclude licensing contracts.

5.1.1.2. Indirect infringement

Indirect infringement is linked to the person facilitating an act of infringement. If the act is not a direct infringement but instead inducing or contributing to the infringement, it is in some nations considered indirect patent infringement. There are no provisions on indirect infringement in TRIPS, something which opens up for variation among the member states.

² As discussed by Bernitz, U. Immaterialrätt och otillbörlig konkurrens (2007), p.11, in regards to ineffective IP protection in trade with counterfeiting products.

³ Ferguson, I. CRS Report for Congress, The WTO: Background and Issues, <http://www.nationalaglawcenter.org/assets/crs/98-928.pdf>

⁴ TRIPS art.1.1.

⁵ TRIPS art.28.

5.1.2. Enforcement

5.1.2.1. Civil proceeding

5.1.2.1.1. Procedural Limitations

TRIPS does not provide any guidance in the matters of choice of jurisdiction, re-construction of claims or time limitations to bring an infringement action. The member states may choose how to manage these issues without any specific demands.

5.1.2.1.2. Defenses against claims of patent infringement

5.1.2.1.2.1. Invalidation

The defendant in a patent infringement suit often claims that the concerned patent is invalid. If a patent is invalidated in one jurisdiction it does not necessarily mean that it will be invalidated in another, on the same grounds. The patent rights are independent from each other concerning invalidation, just the same as a patentee could allow a patent to lapse in one country but keep the protection in another. TRIPS does not provide the grounds on which a patent can be invalidated.⁶ The agreement only demands an opportunity for parties to a proceeding to get a judicial review of the legal aspects of final administrative decisions.⁷

5.1.2.1.3. Remedies for patent infringement

TRIPS is the most important international patent agreement for infringement remedies. It implies objectives and purposes considering enforcement of the rights, yet it has left the WTO member states considerable space for how to implement the enforcement obligations.⁸

5.1.2.1.3.1. Injunctions

In order to end an infringement, a patentee might want to get a court injunction against an infringer. According to TRIPS, the judicial authorities shall be entitled to order a party to cease infringing. This could for example be done in order to prevent the entry of infringing goods into a jurisdiction, immediately after customs clearance of the goods.⁹ The TRIPS members are not obliged to use this authority before they have reasonable grounds to know that the trade would involve infringement.

Injunctions are in some jurisdictions not allowed as a remedy, in cases of governmental use. In the US, for example, remedies are limited to compensation in cases of governmental use of patents.¹⁰ TRIPS allows member states to limit remedies to declaratory judgments and adequate compensation, if the other infringement remedies offered in TRIPS are conflicting with a member state's law.¹¹

5.1.2.1.3.2. Damages

The judicial authorities of a member state shall have the power to order an infringer to pay the patentee damages adequate to compensate for the injury caused by someone who, knowingly or with reasonable grounds to know, infringes.¹² Judicial authorities shall also be entitled to

⁶ De Carvalho, N. The TRIPS Regime of Patent Rights (2005), p.376.

⁷ TRIPS art.41 (4).

⁸ Rius Sanjuan, J. <http://www.keionline.org/content/view/194/1>

⁹ TRIPS art.44.

¹⁰ USC 1498, Section 28.

¹¹ TRIPS art.31 (h).

¹² TRIPS art.45.

order the infringer to pay the expenses of the patentee, which may include appropriate attorney's fees. Judicial authorities may also order recovery of profits and payment of pre-established damages even where someone did, not knowingly or with reasonable grounds to know, engage in infringing activity.

TRIPS does not provide rules on how to define adequate compensation and member states are not required to offer lost profits. They are also provided with substantial flexibility to take consumer protection and public interest into account.

5.1.2.1.3.3. Measures to preserve evidence

According to TRIPS, judicial authorities can take provisional measures in order to quickly prevent the infringement of patents or to effectively preserve relevant evidence. The agreement allows the judicial authorities a great deal of flexibility in determining the measures to prevent infringement. If there is a risk that evidence will be destroyed or that the patentee/licensee will be caused irreparable damage due to any delay, the judicial authorities shall be entitled to enforce interim measures ex-parte (without hearing the other party).¹³ The parties affected shall then be given notice, after the execution of the measures at the latest. A review, including a right to be heard, shall take place upon request of the defendant.

The authorities shall be entitled to require the patentee/licensee to provide any reasonably available evidence to give a sufficient degree of certainty that the patent right is being infringed or that such infringement is approaching. The applicant shall provide security sufficient to protect the defendant and to prevent abuse.

If the provisional measures are revoked or if they lapse due to any act by the plaintiff, or where it is subsequently found that there was no infringement or threat of infringement, the judicial authorities shall have the authority to order the applicant, on request of the defendant, to provide the defendant appropriate compensation for any injury caused by these measures.

In regards to process patents, TRIPS has some specific requirements on a revised burden of proof.¹⁴ The defendant has to prove that the process to obtain the product is different from the patented process. The member states needs to provide a revised burden of proof if the product obtained by the patented process is new, or if there is a substantial likelihood that the identical product was made by the process and the patentee has made reasonable efforts to show it.

5.1.2.1.4. Alternative proceedings

5.1.2.1.4.1. Border measures against counterfeiting products

TRIPS highlights that member states may offer procedures to a patentee, who has valid grounds for suspecting that importation of goods involving patent infringement may takes place, to lodge an application for suspension by the customs authorities, of the release into free trade of that goods.¹⁵ The patentee is required to provide adequate evidence that there is an infringement, and to supply a detailed description of the goods.¹⁶ The patentee will be required

¹³ TRIPS art.50.

¹⁴ TRIPS art.34.

¹⁵ TRIPS, art 51.

¹⁶ TRIPS, art.52.

to provide sufficient security to protect the defendant and to prevent abuse.¹⁷ A member state may exclude small quantities of goods of non-commercial nature from the above.¹⁸

5.1.2.1.4.2. **Criminal proceeding**

TRIPS requires the member states to provide for criminal procedures and penalties at least in cases of willful trademark counterfeiting or copyright piracy. The member states may provide for the same in other cases of infringement, for example of patents, in particular if they are committed intentionally and on a commercial scale.¹⁹

¹⁷ TRIPS, art.53.

¹⁸ TRIPS, art.60.

¹⁹ TRIPS, art.61.

5.2. Sweden

Sweden is party to TRIPS, following the regulation set out within the agreement. Sweden offers not only a civil procedure in regards to patent infringement, but also a criminal procedure. The patent courts are known to offer skilled expertise in patent trials, thus making the country interesting in regards to civil litigation. An interim injunction could be quickly obtained. However, the length of a court procedure has become more extensive over the past years, currently being estimated to be one of the most time-consuming in Europe in regards to obtaining a final decision.²⁰

5.2.1. Infringement

5.2.1.1. Direct Infringement

In Sweden, the exclusive right protecting a patentee against direct infringement complies with the regulations in TRIPS.²¹ To exploit the invention on Swedish territory, by any of the means set out in TRIPS, demands consent of the patentee.

5.2.1.1.1. *The doctrine of equivalence*

As for the examination of an infringing product, the principle of equivalence is not commonly used in Swedish courts. This principle seems to be reserved mainly to cases where there is a patent on a technical solution of great importance.²² The reasoning is that a third party needs a certain amount of safety and predictability, which the courts are to balance against the rights of the patentee and the value of the patent.²³

5.2.1.1.2. *Exhaustion of rights*

The exclusive right to exploit the invention has some limitations, for example the exhaustion principle,²⁴ in order to balance an effective market and fair competition towards the interest of the patentee. The exhaustion principle sets the limits for how a patentee is allowed to exploit a protected invention towards his customers. In Sweden, the right to the patented product is consumed in the whole of the European Economic Area (EEA) once the product is put on the market within this area with the consent of the patentee.²⁵ The regional consumption means that parallel import from a state outside of the EEA is prohibited.²⁶ It should be noted that states are treating the exhaustion principle differently.

The party claiming a right to be exhausted has the burden-of-proof.²⁷ Should a licensee trespass on the transferred right, for example through exporting products to a country not included in his license, there is no longer considered to be any consent from the patentee.²⁸ There is an ongoing discussion on the boundaries of the exhaustion principle, in situations where a

²⁰ Kostnadseffektivitet vid patentintrång, Patent Eye, 2007:7, p.17.

²¹ Swedish Patent Act, 3§1.

²² Stockholms Tingsrätt, T 7924-00.

²³ Domeij, B. Patenträtt (2007), p.116, discussing equivalence as it has been expressed by Swedish courts.

²⁴ Swedish Patent Act, 3§3st2p.

²⁵ Swedish Patent Act, 3§3st2p.

²⁶ NIR 1991 p.300 (Svea Hovrätt).

²⁷ As discussed by Levin, M., & Koktvegaard, M. Lärobok i immaterialrätt (2008), p.302 in regards to general principles of Swedish law.

²⁸ As explained by Levin, M., & Koktvegaard, M. Lärobok i immaterialrätt (2008), p.302.

patentee tries to limit how a licensee is allowed to act towards downstream purchasers.²⁹ Patentees sometimes want to use business models employing field-of-use licenses; something which could allow for broader licensing possibilities. In some recent US cases following *Mallinckrodt v. Medipart*, the Federal Circuit upheld licenses which prohibited licensees to repair and resale products, thus allowing patentees to expand the exclusive right, decreasing the exhaustion zone and broadening the field of acts of patent infringement.

The exhaustion principle is of importance also when determining whether an act is repairing or reproducing. The purchaser of a patented product is allowed to repair it, since exhaustion applies, while reconstructing the product could be infringement.³⁰ The line between these two concepts is under discussion.³¹ If the product should be completely destroyed, it could be considered as reconstruction to remediate it.³²

5.2.1.2. Indirect infringement

5.2.1.2.1. Contributory

There are situations where a product is only partly infringing; some element of the invention is missing. A producer might offer customers parts that could be assembled to an infringing product, once the customers have bought them. In these cases, the right to exploit the invention includes that no one but the patentee may offer or supply another person with an essential element of the invention. Key elements of a patented invention should be restricted to sales only by the patentee.³³ This applies only in Sweden, and if the person offering or supplying the means knows, or it is obvious from the circumstances, that the means are suited and intended for use in carrying out the invention.³⁴ The demand on knowledge of the subsequent use implies that a contract manufacturer is not infringing, if he does not understand the intention of his purchaser.

5.2.1.2.2. Induced

If the part offered is a generally available commercial product, it is considered infringement only if the person offering or supplying the essential part attempts to induce the receiver to commit an infringing act.³⁵ The inducement could be for example to sell the product together with instruction manual or other information, presenting how the patented product is assembled.³⁶

Few cases of contributory infringement have been tried in Swedish courts. From what has been discussed in court decisions, a lot of importance is weighed into other possible uses of the

²⁹ *Mallinckrodt, Inc. v. Medipart, Inc.* 976 F.2d 700 (US Court of Appeals for the Federal Circuit 1992) and *Quanta Computer, Inc. v. LG Electronics, Inc.* (No 06-937), 453 F. 3d 1364 (US Supreme Court).

³⁰ Swedish Patent Act 3§1st1p.

³¹ Hölder, N. Contributory Patent Infringement and Exhaustion in Case of Replacement Parts – Comment on a Recent Supreme Court Decision in Germany, *International Review of Intellectual Property and Competition Law (IIC)* 2005, s. 889.

³² NU 1963:6 s.149 f and *United Wire v. Screen Repair Services*, 2007-07-20.

³³ Swedish Patent Act, 3§2.

³⁴ Levin, M., & Koktvegaard, M. *Lärobok i immaterialrätt* (2008), p.300, discussing NIR 1972 p.206, *Papperssamlare* and *Stockholms Tingsrätt*, T 27256, Nycklar.

³⁵ Swedish Patent Act, 3§2.

³⁶ Exemplified by Domeij, B. *Patenträtt* (2007), p.96. Further discussed by Hölder, N. Contributory Patent Infringement and Exhaustion in Case of Replacement Parts – Comment on a Recent Supreme Court Decision in Germany, *International Review of Intellectual Property and Competition Law (IIC)* 2005, s. 889.

allegedly infringing product.³⁷ If the product is infringing on a feature essential enough, and the remaining parts of the patent includes only standard components, it could also be possible to prosecute a direct infringement.³⁸

5.2.2. Warning letter

Before approaching an infringer with a warning letter, there is a need to minimize judicial complications through investigating the background of the invention. When a patentee have noticed and investigated infringement of a patent, he might want to send out a warning letter to the alleged infringer. The intention could for example be to quickly end the infringement, to negotiate a cross-license or to receive a license fee. There are some judicial aspects and consequences surrounding warning letters which should be considered. If a patentee does not defend his patent right, he risks being passive in the eyes of the courts; something which can have a negative effect on other considerations of the court.

In Sweden there are no formal legal requirements regarding the content of a warning letter or when to send it. However, it is demanded by a lawyer to give his opponent a reasonable time to evaluate the situation and his approach, before the lawyer proceeds to bring an action in court.³⁹ The content of a warning letter, with respect to good faith of the receiver, has so far not been reviewed by any Swedish court. However, it is reasonable to believe that there must be information on the identity of the patentee and what rights that is claimed. It should be clear enough for the receiver to understand that he is infringing and what the consequences are if he pursues the infringement.⁴⁰ There are some remedies which are only be used towards an infringer who is in bad faith; there is a possibility to have the infringing products destroyed,⁴¹ and to claim larger damages.

If a patentee would immediately sue an alleged infringer without exploring the possibilities to settle the infringement, he might have to bear the costs from causing an unnecessary trial, should the opponent be willing to make a settlement.⁴² A warning letter can therefore be of use when exploring the approach of an opponent before proceeding to bring an action in court.

A business owner or manufacturer is not allowed to claim rights he does not possess. If a patentee claims a too wide scope of protection for his patents in relation to his customers, he risks being accused of undue marketing.⁴³ Marknadsdomstolen, the instance trying cases of undue marketing, has claimed not to make any examination of intellectual property rights.⁴⁴ However, as part of their decision, there needs to be at least an indirect judgment on the matter. One of the grounds on which the court bases its decision is whether the letter has been sent to many recipients. Nevertheless, if a manufacturer ceases production due to an alleged

³⁷ Svea Hovrätt, T 513/96.

³⁸ Stockholms Tingsrätt, T 15879-98.

³⁹ Vägledande regler om god advokatsed 38§1st.

⁴⁰ As reasoned by Bengtsson, H., & Lyxell, R. Åtgärder vid immaterialrättsintrång (2006), p.80, in regards to bad faith of the receiver of a warning letter.

⁴¹ Swedish Patent Act 59§.

⁴² Rättegångsbalken, 18:3§1st.

⁴³ Marknadsföringslagen 6§2st4p.

⁴⁴ MD 1988:6, KLORIN.

infringement, it could still be a measure of marketing.⁴⁵ This means that the regulations of the Marketing Act must be considered, even if the letter is for only one recipient.

If a patentee intentionally or with negligence sends a warning letter which is not correct, he risks being vulnerable to damage claims. This was the situation in the Splitklein case,⁴⁶ where a patentee was deemed to pay damage to the recipient of the letter. Criminal responsibility is an almost theoretical possibility in regards to warning letters, but it could be used if it is a gravely misleading letter, damaging the recipient and giving benefit to the patentee.

Should the recipient not be willing to accept the alleged infringement, it is possible for him to demand a negative declaratory action. This action needs to be brought in the state where the patentee's place of residence is, if this is within EU or the EEA. If not – if, for example, an American patentee holds a Swedish patent – the declaratory judgment can proceed in Sweden.⁴⁷ The recipient could also bring an action to challenge the validity of the patent.

5.2.3. Enforcement
5.2.3.1. Civil proceeding
5.2.3.1.1. Procedural limitations
5.2.3.1.1.1. Choice of jurisdiction

Litigation of patent infringement is, due to global market-places and the territorial nature of patents, first a question of where an infringer can be sued. Infringing acts might take place in several jurisdictions at the same time.

If the dispute is arising out of a contractual arrangement, the parties would normally have an agreement on the choice of jurisdiction. The parties of an international agreement are free to choose the jurisdiction that suits them.⁴⁸ Should there be an absence of choice; the contractual relationship shall be governed within the jurisdiction whereto it is most closely connected.⁴⁹ This would be where the commercial use of the right takes place, for example the place of production.⁵⁰ Nevertheless, the above principle has been debated. There are cases where the place of residence for a licensor has been used.⁵¹ Still, this is usually not a problem, since contracting parties in most cases choose their jurisdiction at the time of the agreement.

A problem discussed during the past years is *torpedo actions*. According to the Council Regulation (EC) 44/2001, to which all EEC states are bound, the court where an action is first brought will make the ruling on the matter. If a second court, in a different contracting state, has the same parties bringing the same cause of action, the court has to decline jurisdiction in

⁴⁵ MD 2004:14, Ampac.

⁴⁶ NJA 1953 s.775, Splitklein.

⁴⁷ Domeij, B. Patenträtt (2007), p. 119, discussing the principles following from NJA 2006 s.354 and NJA 2000 s.273.

⁴⁸ NJA 1956 s. 343, Lagval, NJA 1977 s.92, Lagval II.

⁴⁹ EC Convention on the Law applicable to Contractual Regulations (Rome 1980), art.4.

⁵⁰ Discussed by Levin, M., & Kockvegaard, M. Lärobok i immaterialrätt (2008), p.480, as an example of the regulation of international civil law.

⁵¹ Discussed by Levin, M., & Kockvegaard, M. Lärobok i immaterialrätt (2008), p.480, with the notion that this topic has so far not been subject to any court decision in Sweden.

favor of the first court.⁵² Declining jurisdiction is a formal decision which could be prolonged in some countries, for example Italy and Belgium, hence be allowed to consume an unreasonable amount of time. A defendant in a patent infringement suit could strategically bring such an action, in order to slow down the court process.⁵³ Germany, France, the Netherlands and the United Kingdom have tried to ignore the possibility of torpedo actions; however, the European Court of Justice has explicitly pointed out that article 21 does not allow for exceptions, even if the time for decision making amounts to an unreasonable length.⁵⁴

5.2.3.1.1.2. **Re-constructing claims**

A patentee can renounce his patent at any time, through written notice to the Swedish Patent Office (PRV).⁵⁵ He may choose to renounce only parts of the patent, for example one or a few patent claims.⁵⁶ In an invalidation case, there are possibilities to restrain the patent through reformulating a claim.

5.2.3.1.1.3. **Limitation time**

There is a five year limitation for claiming compensation for damages from patent infringement, from the date when action was brought.⁵⁷ It should be noted that a warning letter does not break this limitation; it is necessary to file a claim in court to break the limitation period.⁵⁸ Anyone who suffers damages from the patent can bring an action. If the action is based on the ground that someone else than the right's owner has been granted the patent, there is a one year limitation, from the time the plaintiff found out that the patent was granted. If the patentee was in good faith, the action may be brought no later than three years from grant.⁵⁹

5.2.3.1.2. **Defenses against claims of patent infringement**

5.2.3.1.2.1. **Re-examination**

Once a patent has been granted, there are possibilities to invalidate it. Within nine months after grant, anyone can file an opposition to the patent with the Swedish patent office (PRV).⁶⁰ This type of invalidation procedure is quick and cheap, in comparison to bringing an invalidation action to court after the nine months. The grounds for an opposition can be that new information is included in the claims or that the scope of the patent is expanded after grant, that the patent is not novel, has no inventive step, does not have a sufficient description, is not within the patentable area or that the applicant is not the owner.⁶¹ If an opposition is not approved of by the PRV, this decision does not hinder a later invalidation action being brought to court.

⁵² Brussels Convention on Jurisdictions and the Enforcement of Judgments in Civil and Commercial Matters (1968), art.21, 25, now replaced by the Council Regulation (EC) 44/2001 of 22 December 2001 on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters.

⁵³ As reasoned by Levin, M., & Kocktvegaard, M. *Lärobok i immaterialrätt* (2008), p.478, concerning the tactics of a defendant in an infringement case.

⁵⁴ C-116/02, Gasser.

⁵⁵ Swedish Patent Act, 54§.

⁵⁶ Swedish Patent Act, 52§2st.

⁵⁷ Swedish Patent Act, 58§3st.

⁵⁸ SOU 1967:35 p.284.

⁵⁹ Swedish Patent Act, 52§.

⁶⁰ Swedish Patent Act, 24§.

⁶¹ Swedish Patent Act, 25§.

5.2.3.1.2.2. **Invalidation**

It is not possible to use invalidation as a defense in an infringement suit; the defendant has to initiate a separate invalidation action.⁶² The grounds for invalidation are the same as for an opposition claim.⁶³ Invalidation of an EPO patent with validity in Sweden follows the same procedure, and could be initiated with the EPO.⁶⁴ The Swedish Patent Act is in this respect harmonized with EPC, art.138. However, this is not a guarantee to that an EPO patent will be treated the same in all EPC countries.

It is, in Sweden, a requirement that the inventor is stated in the patent application in order to be granted a patent.⁶⁵ The patent could otherwise be invalidated. However, stating the wrong name of the inventor is not a ground for invalidation⁶⁶. Here is a difference towards U.S patent legislation, where the wrong name would be a reason for invalidation.⁶⁷

There are some effects of invalidation which should be highlighted. If a patent is found invalid, there will be no royalty payment to the patentee/licensor for the use of the invention while the patent was still in force.⁶⁸ If a patent is sold and later found invalid, it is in most cases not possible for the purchaser to claim compensation from the seller, unless the seller has made a specific guarantee on the validity of the patent.⁶⁹

5.2.3.1.3. **Remedies for patent infringement**

5.2.3.1.3.1. **Injunctions**

A court can order a prohibition, under penalty of a fine, for a person committing infringement to continue that infringement. This could be done on request of either a patentee or a licensee.⁷⁰ If the plaintiff can show that it is reasonable to assume that an effect of a continuation of the infringement is a decreased value of the patent, the court can order an interim injunction, under penalty of a fine, until the case is finally decided. The presumption is normally that there is a risk of decreased patent value as long as the defendant does not agree to the accusations.⁷¹ When the case is finally adjudicated the court decides if the interim prohibition shall continue to apply.

There are frequently difficulties to show the extent of the damage in an infringement case. The damages paid are often low, thus the interim injunction has become the most important and effective remedy against infringement.⁷² If a patentee requests an interim injunction, it also

⁶² Swedish Patent Act, 61§.

⁶³ Swedish Patent Act, 52, 25§§.

⁶⁴ Swedish Patent Act 52§, implementing EPC art.138.

⁶⁵ Swedish Patent Act, art.8.4.

⁶⁶ Swedish Patent Act, art 52.

⁶⁷ Discussed by Domeij, B. Patenträtt (2007), p.22, in regards to practices of Swedish companies applying for patents in the U.S.

⁶⁸ Swedish Patent Act, 61§.

⁶⁹ Domeij, B. Patenträtt (2007), p.141 discussing the applicability of the Act on Sale of Goods, 17§3st, on sales of patents.

⁷⁰ Swedish Patent Act, 57§b1st.

⁷¹ Prop. 1993/94:122 s.49.

⁷² A conclusion made by Bengtsson, H., & Lyxell, R. Åtgärder vid immaterialrättsintrång (2006), p.165, in a discussion of the use of interim measures.

offers him the possibility to quickly (normally two to five months⁷³) be noticed about a preliminary probability of there being an infringement.

No interim injunction may be ordered before the defendant has been given an opportunity to respond to the accusations, unless a delay would cause a risk of damage.⁷⁴ In relation to warning letters, a warning letter could increase the possibilities to get an interim decision, since the patentee can show that the alleged infringer does not cease the infringement despite the request to do so. If the patentee has known about the infringement for a long time without taking any action to solve the situation, it could harm his possibilities to get an injunction. In this situation, a warning letter sent might be of concern to the court.⁷⁵

The idea behind the use of interim injunctions is to safe-guard the execution of a later decision in court.⁷⁶ Interim decisions may be ordered only if the plaintiff deposits an adequate security with the court, for the injury it might cause the defendant. If he is not capable of making such deposit, the court may liberate him from it. A request for an interim injunction cannot be brought prior to filing a law suit for the infringement.⁷⁷ However, there are a few other interim measures which could be brought as separate actions.⁷⁸

5.2.3.1.3.2. Damages

From a judicial point-of-view there is no need for a patentee to inform an infringer about the patent right, for example through marking products, in order to be entitled to damages. There are two types of damages which could be claimed for patent infringement; the first is reasonable compensation for the use of the invention and compensation for further damage. This can be claimed if the infringement was done with intent or due to negligence.⁷⁹ Further damage means that the patentee shall be put in the same situation as he would have been, had there never been an infringement.⁸⁰ Nothing more than the real damage of the patentee is to be compensated.⁸¹ The second type is a general damage, with consideration given to other circumstances than purely economic⁸² – for example difference in size between the parties. Infringement is often more harmful to a smaller company. Reasonable damage is to be paid even if the infringement was done without intent or through negligence, and is determined as a general license fee in the concerned type of business.

There are often difficulties when trying to show the causality between an infringement and a claimed damage, which could be for example a loss of sales, and also to show the extent of the damage.⁸³ The causality is dependent of two factors – the market on which the infringer has sold

⁷³ Time appreciated by Bengtsson, H., & Lyxell, R. Åtgärder vid immaterialrättsintrång (2006), p.166.

⁷⁴ Swedish Patent Act, 57b§2st.

⁷⁵ Bengtsson, H., & Lyxell, R. Åtgärder vid immaterialrättsintrång (2006), p.76, 179, discussing the outcome of Malmö Tingsrätt mål nr T 5119-03, decision 2003-09-22.

⁷⁶ Bengtsson, H., & Lyxell, R. Åtgärder vid immaterialrättsintrång (2006), p.169 explaining the principles behind the decision in NJA 1993 s.182.

⁷⁷ NJA 2000 s.453 II.

⁷⁸ Act on Procedural Law, 15:7§, 15:1-3§§.

⁷⁹ Swedish Patent Act, 58§1st.

⁸⁰ Prop.1993/94:122 s. 52.

⁸¹ NJA 2005 s. 180.

⁸² Swedish Patent Act, 58§2st.

⁸³ Prop. 2008/09:67 s.234.

products and the market share the patentee had on that market, infringers products excluded. The patentee could claim damages for the sales that are lost.

5.2.3.1.3.3. Measures to preserve evidence

The TRIPS requirements on provisional measures to preserve evidence were implemented into Swedish legislation in 1999.⁸⁴ There was previously a view that the provisions on confiscation and search order in procedural law were enough to fulfill the TRIPS requirements; however, these provisions are applicable only in criminal proceedings, while most infringement suits are dealt with through civil proceedings. Criminal proceedings are rarely used due to a number of reasons (further outlined in Criminal Proceeding section). It was therefore considered that measures to preserve evidence also in civil proceedings needed to be implemented.⁸⁵

An investigation at the place of the alleged infringer may be carried out to search for objects or documents that can be assumed to be of importance for proving an infringement or the extent of it.⁸⁶ Objects could be both infringing products and machines or other tools to produce the products.⁸⁷ The decision to make an infringement investigation may be taken only if the reasons motivating the measure outweigh the inconvenience it might cause the alleged infringer. The investigation can be done in all facilities, both business and private, and in all vehicles that the alleged infringer disposes of.⁸⁸ An infringement investigation can only be carried out on request, not ex officio. The good or bad faith of an infringing party is of no concern; an infringement investigation can be ordered if there is an infringement.

5.2.3.2. Alternative proceedings

5.2.3.2.1. Border measures against counterfeiting products

The customs may confiscate infringing products ex officio or on request of the patentee.⁸⁹ The benefits of confiscation when products pass the borders are mainly that the products never reach the commerce within the country, and the procedure is effective and cheap. This procedure applies to import, export and re-export.⁹⁰ The applicant must sign a guarantee to pay for any damage which the confiscation could cause.

5.2.3.2.2. Criminal proceeding

Sweden offers criminal proceedings for cases of patent infringement, if it has been a deliberate infringement or committed through gross negligence.⁹¹ A person can also be charged with attempting or preparing to infringe.⁹² The prosecutor may start a proceeding only if the damaged party reports the offence for prosecution, and if prosecution would be required by the public interest. Penalties are fines or imprisonment up to two years. The infringing products and profits of the infringement will be declared forfeit, if it is not obviously unreasonable.⁹³

⁸⁴ Swedish Patent Act, 59§, 59§a-h.

⁸⁵ Prop.1998/99:11.

⁸⁶ Swedish Patent Act, 59§a.

⁸⁷ Prop. 1998/99:11 s.54.

⁸⁸ Prop. 1998/99:11 s.57.

⁸⁹ Council Regulation on Counterfeit goods 1383/2003, art.5-8.

⁹⁰ Council Regulation on Counterfeit goods 1383/2003, art.1.1, Council Regulation 241/99.

⁹¹ Swedish Patent Act, 57§.

⁹² Swedish Patent Act, 57§ and Penal Code, ch.23.

⁹³ Swedish Patent Act, 57a§.

Since 1994, any person who is attempting or preparing an infringement can be prosecuted under the Penal Code,⁹⁴ before the actual infringement has taken place. Such preparations can be to take measures to illegally produce a patented product, to advertise, prepare sales facilities or other similar steps.⁹⁵ It could also be to assist an infringer with for example financial means.

Criminal proceedings are rarely used due to a number of reasons, for example that parties often want to settle the dispute while they are in a proceeding and that infringement cases are rather low prioritized with police and prosecutors.⁹⁶

⁹⁴ Swedish Patent Act, 57§3st, Penal Code ch.23

⁹⁵ Prop.1993/94:122 s.56.

⁹⁶ Reasoning by Bengtsson, H., & Lyxell, R. Åtgärder vid immaterialrättsintrång (2006), p.111.

5.3. The United States (U.S)

U.S follows the guidelines set out in TRIPS. Matters concerning patents are regulated in the United States Code, Title 35 – Patents section. The U.S patent system is characterized by a well established and well developed patent system, offering the benefits of extensive disclosure and high damages. U.S litigation is also known for expensive trials and for the use of a jury.

5.3.1. Infringement

Direct and indirect patent infringement is clearly defined in the Patent Act; an infringement can be direct, induced or contributory. Some pre-grant protection measures are also available, covering reasonable royalty damages for certain infringing activities that occurred before the patent's date of issuance.⁹⁷

5.3.1.1. Direct infringement

A direct infringement is constituted by whomever that without authority makes, uses, offers to sell, or sells a patented invention within U.S, or imports into the country a patented invention during the term of the patent.⁹⁸

5.3.1.1.1. The doctrine of equivalence

If a competitor of the patentee invents a “device that performs substantially the same function in substantially the same way to obtain the same result”, the patentee can invoke the doctrine of equivalence. This implies that a patent to some extent can be infringed even if the literal claims are not directly infringed upon.

One of two methods to establish equivalence is called the “triple identity test”.⁹⁹ The method weighs the similarities in function, way and result between the possibly infringing device and the patented device. The second method builds on the idea of a device being equivalent if there is only an "insubstantial change" between each of the elements of the accused device or process and each of the elements of the patent claim.¹⁰⁰

The doctrine of equivalence broadens the scope of the patent as presented in the US patent act and is codified in the legal text.¹⁰¹ The doctrine is limited by the “prosecution history estoppel”,¹⁰² which prevents equivalence being claimed in regards to something that the patentee abandoned through an amendment to the patent, before it issued.¹⁰³

5.3.1.1.2. Exhaustion of rights

The exhaustion principle is referred to as the principle of first sale. There is a lot of case law discussing the boundaries of the principle.¹⁰⁴ The current limitations are considered unclear.

⁹⁷ 35 U.S.C § 154 (d).

⁹⁸ 35 U.S.C § 271 (a).

⁹⁹ Graver Tank & Manufacturing Co. v. Linde Air Products Co., U.S 605 (1950).

¹⁰⁰ Warner-Jenkinson Company, Inc. v. Hilton Davis Chemical Co., U.S. 520 (1997).

¹⁰¹ 35 U.S.C § 112.

¹⁰² Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002).

¹⁰³ Janicke, P. Modern Patent Litigation, Carolina Academic Press (2006), p.227.

¹⁰⁴ Jazz Photo Corp. v. United States International Trade Commission, 59 USPQ 2d 1907 (Fed Cir 2001); Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) and Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. (2008).

There are two cases discussing what is allowed concerning reparation versus reconstruction in regards to a purchased patented product.¹⁰⁵ In the case of Sandvik AB v. E.J. Co. the lower court first held the re-tipping of a patented drill as permitted, but the ruling was later overturned by the Federal Circuit due to the totality of the circumstances. In the case of H.P v. Repeat-O-Type the lower court found that the refill of an ink-jet cartridge was to be seen as permitted reparation. In regards to the issue of reparation and reconstruction U.S courts consider the totality of the circumstances and uphold a case-by-case approach.¹⁰⁶

5.3.1.2. Indirect infringement

An indirect infringement implies an act not directly tied to the infringement. Indirect patent infringement can be divided into two different categories; both these types of infringement can occur only when there is an act of direct infringement.

The first category is where someone is aiding and abetting someone else to commit the direct infringement. In U.S law this is referred to as induced infringement.¹⁰⁷ By instructing, directing, encouraging or in any other way actively inducing someone else to act as an infringer, the inducing party will be liable as an indirect infringer.

The second category is where someone sells or offers to sell a component of the patented invention. This is referred to as contributory infringement.¹⁰⁸ Contributory infringement demands that the component cannot be a staple item, suitable for substantial non-infringing use.

In regards to cross-border issues, U.S have a specific section regulating assembly abroad,¹⁰⁹ following a change of the patent act in 1984. A component of a patented invention that is especially made or especially adapted for use in that invention, and not a staple article, is considered as infringing.

5.3.2. Warning letter

The use of warning letters in connection to patent infringement is not harmonized between different jurisdictions.¹¹⁰ The use and requirements for a warning letter therefore differs largely between countries.

A warning letter is in U.S referred to as a “cease and desist-letter”. A warning letter can offer benefits when it comes to making the other party cease the infringement. However, if the patentee is not completely secure of there being an infringement and that he is able to prove it, there is a risk that the warning letter can be considered a groundless action.

¹⁰⁵ Sandvik Aktiebolag v. E.J. Co. 97-1168; Hewlett-Packard Co. v. Repeat-O-Type, 123-1445.

¹⁰⁶ United States – Permissible Repair or Patent-Infringing Reconstruction, http://www.ladas.com/BULLETINS/1997/1297Bulletin/US_RepairReconst.html

¹⁰⁷ 35 U.S.C § 271 (b).

¹⁰⁸ 35 U.S.C § 271 (c).

¹⁰⁹ 35 U.S.C § 271 (f)(2).

¹¹⁰ Parker, S., & Binns, R. et al. Threatening Patent Infringement Proceedings – An International Perspective, <http://www.simmons-simmons.com/docs/plisep06.pdf>

A groundless action can result in damage claims or claims concerning unfair competition being brought against the patentee.¹¹¹ A groundless action could additionally cause the alleged infringer to file a declaratory judgment suit.¹¹² For a declaratory judgment suit to be filed by the alleged infringer, two criteria's must be fulfilled. Firstly there must be an actual controversy between the parties and secondly the patentee's conduct must have given the alleged infringer a reasonable apprehension that the patentee will suit for infringement.¹¹³ In the U.S the inventor has to be named on the patent application,¹¹⁴ if the application lacks the name of the inventor or if it contains a faulty name on the inventor it can be grounds for invalidity.¹¹⁵

5.3.3. Enforcement

5.3.3.1. Civil proceeding

5.3.3.1.1. Procedural limitations

The U.S use of trial by jury in civil trials is unique, guaranteed by the seventh amendment in the US constitution.¹¹⁶ The US patent system is well-known for its both extensive and invasive discovery in pre-trial evidence gathering. The patent system is also known for being a very expensive forum for patent litigation, in a worldwide comparison.

5.3.3.1.1.1. Choice of jurisdiction

The Federal District Courts has jurisdiction of all cases arising under the U.S patent laws.¹¹⁷ All Federal District Courts have subject matter jurisdiction over actions arising under U.S patent laws.¹¹⁸ For an action to be brought, the court also needs to establish personal jurisdiction and proper venue. For corporate defendants venue exists wherever personal jurisdiction exists,¹¹⁹ and the Federal District Courts therefore usually follow a test established by the US Supreme Court to establish personal jurisdiction.¹²⁰ The test focuses on whether there are sufficient minimum contacts to the state. A place of business or a general pattern of doing business in the state is often enough to show personal jurisdiction.

In regards to the choice of venue the United States Code states that:

*"Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."*¹²¹ When infringement claims are brought against the US government or in regards to importation of products covered by a US patent or made abroad by a process covered by a US patent, there are significant differences between the forums.¹²² If the conflict between the parties is arising out of a contractual agreement there is often a forum

¹¹¹ Parker, S., & Binns, R. et al. Threatening Patent Infringement Proceedings – An International Perspective, <http://www.simmons-simmons.com/docs/plisep06.pdf>

¹¹² Declaratory Judgment Act, 28 U.S.C § 2201(a).

¹¹³ Teva Pharm USA, Inc. v. Pfizer Inc., 395 F 3d 1324 (Fed Cir 2005).

¹¹⁴ 35 U.S.C § 111.

¹¹⁵ Domeij, B, on the subject that wrongful information concerning the inventor can be grounds for invalidity in the U.S, but not in Europe, Patenträtt (2007), p.22.

¹¹⁶ U.S.C, Amendment 7 - Trial by Jury in Civil Cases. Ratified 12/15/1791.

¹¹⁷ Section 1338(a), title 28 of the U.S.C.

¹¹⁸ 28 U.S.C § 1331 & 1338.

¹¹⁹ VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1583-84 (Fed Cir. 1990).

¹²⁰ US Supreme Court in International Shoe Co. v. Washington, 326 U.S. 310, 316-17 (1945).

¹²¹ 28 U.S.C § 1400 (b).

¹²² Heath, C. Patent Enforcement Worldwide (2005), p.389.

selection clause, regulating what particular jurisdiction should be used. This is voluntary for the parties; therefore the forum selection clauses have been upheld by the US Supreme Court at several occasions¹²³ and are generally enforced by the courts.

5.3.3.1.1.2. **Re-constructing claims**

A patent can be abandoned in full at any time.¹²⁴ One or several claims can be abandoned through the use of a disclaimer.¹²⁵ These abandoned claim claims do not have any affect on the remaining claims which are continuously valid. The disclaimer can be partial or in whole and needs to be in writing and recorded at the USPTO. The patent will be considered abandoned if the patent fee is not paid to the USPTO.¹²⁶

5.3.3.1.1.3. **Limitation time**

There is no limitation for bringing an infringement suit; a patent can be enforced during the total length of the patent. Nevertheless, there are limitations and to obtain reasonable royalties¹²⁷ and damages.¹²⁸ The limitation for obtaining damages is six years prior to the filing of the complaint or the counterclaim for infringement in the action. In order to obtain a reasonable royalty an action must be brought no later than six years from the issuance of the patent. However, there is a doctrine of “laches” or “equitable laches” which states that if a party fails to act on his rights, the party is no longer entitled to make claims. The critical issue is whether the party acted without delay after becoming aware of his rights. If the party failed to bring proceedings until years after the infringement, the alleged infringer may not be barred from seeking relief.

5.3.3.1.2. **Defenses against claims of patent infringement**

There are some different ways of defending against infringement claims. The most commonly used defenses are re-examination, invalidity and non-infringement. The two latter is manifested in the law as defenses in any action concerning the validity or infringement of a patent.¹²⁹

5.3.3.1.2.1. **Re-examination**¹³⁰

Re-examination by the USPTO is the equivalent to the European post-grant opposition procedure. A patent owner or third party can ask the PTO to review the patents validity.

*“Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 (prior art) of this title”.*¹³¹

The party that submits the patent for re-examination must submit prior art which raises a substantial new question of the patentability. The procedure can take place ex-parte (where the

¹²³ The Bremen v. Zapata Off-Shore Company, 407 U.S. 1 (1972);

Carnival Cruise Lines, Inc. v. Shute, 499 U.S. 585 (1991).

¹²⁴ 35 U.S.C 102 (c).

¹²⁵ 35 U.S.C 235.

¹²⁶ 35 U.S.C 111 (a)(4).

¹²⁷ 35 U.S.C 154(d)(3).

¹²⁸ 35 U.S.C. 286.

¹²⁹ 35 U.S.C § 282.

¹³⁰ 35 U.S.C § 311-318.

¹³¹ 35 U.S.C § 302.

submitting party have no saying in the procedure) or inter parte (where the submitting party can continue to participate in the procedure). The advantages of re-examination is that it is cheaper than litigation, the officers of the USPTO have more expert knowledge than courts and a decision of the USPTO weighs heavy in a potential subsequent litigation suit. The obvious downside of re-examination is that a negative outcome for the requesting party damages his position in later litigation proceeding.

5.3.3.1.2.2. **Invalidation**

Invalidation can be a powerful defense when accused of infringement. Figures show that up to fifty percent of all the infringement suits brought to the US Supreme Court are lost by the patentee, due to the patent being invalidated.¹³² The first defense against allegations of infringement is often a prior art invalidity patent search. A patent is assumed to be valid once it has been issued. The burden of proof lies with the accused infringer, to prove that the patent is not valid.¹³³ These terms are legal and technical and will not be developed any further in this thesis, one should however note that the terms “actual controversy” and “reasonable apprehension” has a deeper and complex meaning than one might first suspect.

5.3.3.1.3. **Remedies for patent infringement**

5.3.3.1.3.1. **Injunction**

The court may, once validity and infringement of the patent have been established, grant the patentee injunctive relief.¹³⁴ In infringement cases, injunctive relief often comes in form of a preliminary injunction.¹³⁵ For this to be granted by the court, the patentee must show that there is a substantial likelihood of success in the case and that the balance of hardships and the public interest favor the patentee. The limitations of obtaining a preliminary injunction also lie in the concept of irreparable harm¹³⁶. If the patentee is aware of the infringement for a longer period of time without acting it is a lot less likely to be found as being irreparable harm, thus it will be difficult to him to obtain the injunction.

5.3.3.1.3.2. **Damages**

In regards to damages for infringing acts the Patent Act states:

*“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer”.*¹³⁷ However, this should be considered a minimum amount and the patentee will often seek more compensation than the lower reasonable royalty. This is supported by the fact that the court may increase the damages up to three times the amount. This is referred to as treble damages,¹³⁸ requiring in essence that the infringement is made

¹³²Inaba, Y. Patent Invalidation Defense v. Correction of Claims Counter – Assertion in Patent Infringement Litigation,

http://www.aipla.org/Content/Microsites152/IP_Practice_in_Japan/Committee_Meetings/20096/Jan_20_09_Mid-winter_Pre-meeting/Presentations10/05-JP_Invalidation_Defense.pdf

¹³³ 35 U.S.C § 282.

¹³⁴ 35 U.S.C § 283.

¹³⁵ Wilson, D. On the availability of interim relief, International Patent Litigation (2009), p.276.

¹³⁶ U.S Supreme Court, 07–1239. November 12, 2008, Winter et al. v. Natural Resources Defense Council, Inc. et al.

¹³⁷ 35 U.S.C § 284.

¹³⁸ 35 U.S.C § 284.

willfully. In general, this can be interpreted as that the infringer has acted knowingly. There are also possibilities for obtaining attorney fees if there has been misconduct by the other party. According to the US Patent Act, no recovery shall be given for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.¹³⁹

5.3.3.1.3.3. **Measures to preserve evidence**

The patent litigation system puts a lot of emphasis on the parties' duty to gather and present information supporting their case. The possibilities for gathering evidence are in a global setting seen as quite extensive and sometimes even invasive. The measure to gather evidence is defined as "discovery"¹⁴⁰. Discovery is, in the US, however limited by the attorney-client privilege and by the work product immunity.¹⁴¹ The work product immunity protects documents prepared by counsel in connection to litigation. If the accused party needs to protect some information that he deems confidential there are possibilities to limit access through protective orders issued by the court.¹⁴² An incentive for a thorough gathering of evidence by the patentee is that an established willful infringement means a possibility for receiving punitive damages.

5.3.3.2. **Alternative proceedings**

5.3.3.2.1. **Border measures against counterfeiting products**

Border measures can be taken against patent infringement through the import of goods.¹⁴³ There is a similar regulation for process patents.¹⁴⁴

The primary responsibility for determining matters of infringement lies with the United States International Trade Commission (ITC). The ITC has the authority to enforce border measures when there is a valid and enforceable US patent.¹⁴⁵ Additionally the US Customs and Border Protection (CBP), a bureau of the Department of Homeland Security, has the authority to act on exclusion orders issued by the ITC. Since the CBP is not adequately equipped to identify infringing items independently, they will not make any determinations as to whether patent rights have been infringed by an imported item, and they will not act without an exclusion order from the ITC.¹⁴⁶ Nevertheless, there are regulations allowing a customs officer with reasonable cause to believe that an item is infringing the authority to seize that item.¹⁴⁷

Finally, it can be noted that it since 2000 there is a national IPR Coordination Center (ICE) acting as the Federal Government's central point of contact in the battle against IPR violators.¹⁴⁸

¹³⁹ 35 U.S.C § 286.

¹⁴⁰ Federal Rules of Civil Procedure, Rule 26.

¹⁴¹ Heath, C. On the subject of the limitations of the discovery phase. Patent Enforcement Worldwide (2005), p.406.

¹⁴² Federal Rules of Civil Procedure, Rule 26(b)(2).

¹⁴³ 35 U.S.C § 271.

¹⁴⁴ 35 U.S.C § 154.

¹⁴⁵ Tariff Act of 1930, Section 337 (b), (c), (e).

¹⁴⁶ 19 U.S.C § 1337 (d).

¹⁴⁷ 19 C.F.R § 162.21.

¹⁴⁸ Can be found at: <http://www.ice.gov/pi/cornerstone/ipr/>

In regards to an exclusion order from the ITC, the burden of proof lies with the rights holder who must show that the goods are infringing a valid and enforceable patent¹⁴⁹ and that an industry relating to the patent exists or is in the process of being established.¹⁵⁰

5.3.3.2.2. **Criminal proceeding**

In the US patent infringement does not constitute a crime. Therefore, a patentee trying to defend his patent rights is limited to file a civil lawsuit in a Federal Court. TRIPS only requires there being a possibility for criminal proceedings in cases of trademark and copyright infringements.¹⁵¹ However, falsely representing an article as patented or falsely claiming ownership of a patent are criminalized acts and seen as false marketing.¹⁵²

¹⁴⁹ 19 U.S.C § 1337 (a) (1) (B) (i)-(ii).

¹⁵⁰ 19 U.S.C § 1337 (a) (2).

¹⁵¹ TRIPS art.61.

¹⁵² 35 U.S.C § 292.

5.4. Germany

The German patent enforcement system is known to be friendly towards patentees. Another defining characteristic is the use of a split system, where proceedings for infringement and invalidation are kept separate. The German patent system is also recognized as being fast, cheap and predictable.

5.4.1. Infringement

The principles of direct and indirect patent infringement are rather clear. However, the German Federal Supreme Court has recently broadened the scope of the protection for patents, especially concerning involvement of a second jurisdiction. This is due to attempts being made to circumvent national legislation by, for example, assembling parts of a patented product in another country.

5.4.1.1. Direct infringement

For an infringement in Germany, article 64 (3) of the EPC states that:

“Any infringement of a European patent shall be dealt with by national law”.

Anyone who makes, offers, puts on the market or uses a product that is the subject of a patent, or imports or stocks a product for such purposes, or uses a patented method or process in Germany, is commits a direct patent infringement.¹⁵³

The German courts have applied a broad interpretation of the criteria of “making”. If a party begins to make a part, without himself completing the finished product that infringes on a patent, and then leaves the completion of the part to another party (domestic or foreign) the first party is still considered to commit a direct infringement if the patented product *necessarily* results from the making. This also applies to process patents.¹⁵⁴

5.4.1.1.1. The doctrine of equivalence

The scope of a patent is foremost defined in Germany by article 69(1) EPC and corresponding section 14 GPA. The doctrine of equivalence enables the courts of finding someone responsible of direct infringement even if they have not directly been taking an action falling within the scope of the patent claims.

By using the concept of “the person skilled in the art” the court can determine that the solution of the problem is equivalent to the patented solution. This is summarized in a ruling of the German Supreme Court:

*“A patented invention is considered to be infringed if the person skilled in the art is able on account of his technical knowledge (available to him at the priority date of the patent) to identify the modified means employed in the challenged infringement form as being equally (equivalently) effective in the solution of the problem underlying the invention, said identification having to be based on the subject content of the patent claim, i.e. on the patented invention as described in the patent claims.”*¹⁵⁵

¹⁵³ German Patent Act (GPA) §9.

¹⁵⁴ Kunststoffhohlprofil (BGH GRUR 1977, 250); GRUR 1982, 165 – Rigg; LG Dusseldorf, decision November 7 2000, InstGE 1, 26 – Cam-Carpet.

¹⁵⁵ Epilady VIII (BGH) GRUR Int. 1993, 242 referring to BGH in GRUR 1988, 896, 899.

5.4.1.1.2. Exhaustion of rights

Exhaustion of rights is mentioned in TRIPS article 6, but is left to national treatment. In the case of Germany this becomes a question of regional exhaustion within the European Union (EU). EU allows for the doctrine of regional exhaustion to exist between member states, but not outside of EU.

There is a need to contemplate the division between direct and indirect infringement, especially in regards to cross-border activities. If a patented invention is manufactured in Germany and changed so that it does not violate any of the patents claims, and the parts then are sent out to a second country where there is no patent protection and the parts are adjusted once again to fall within scope of the patented invention, the manufacturer in Germany commits a direct infringement. German patent legislation offers a unique possibility for primarily using the direct infringement provisions in section 9 over the indirect infringement provisions in section 10.¹⁵⁶

The question of whether reparation or a replacement of an element in a patented invention is thoroughly discussed in German case law.¹⁵⁷ The determination includes a definition of the part being essential or of particular importance for the innovation in a functional sense. Additionally the purchaser's expectations concerning replacement should be weighted. Finally, the realization of the patentee's chosen business model should be considered.¹⁵⁸

5.4.1.2. Indirect infringement

There were previously no separate provisions in the Patent Act for indirect patent infringement. Indirect infringement could only be prosecuted as part of a direct patent infringement by a third party. However, the concept of independent indirect infringement was introduced in the patent act of 1981.¹⁵⁹

Indirect contributory patent infringement is based on there being essential elements of the invention present in the infringing product. Some German case law has extended essential elements even further than the claims.¹⁶⁰ There is a two-fold domestic element, which means that the offer to supply or the supply as well as the expected use of the product must both take place in Germany.¹⁶¹ Finally there is also a requirement for a two-fold subjective knowledge; the infringer must know that the product supplied is suitable for use in the patented invention and the third party must be aware of that suitability. However, the use could also be deemed obvious from the circumstances at hand.

¹⁵⁶ Radio Clock II, (BGH GRUR 2007, 313).

¹⁵⁷ Impeller Flow Meter (BGH GRUR 2004, 758);
Hood-Stretching Automat (BGH GRUR 2007, 679);
Pipette System (BGH GRUR 2007, 769).

¹⁵⁸ Goddar, H. Contributory Patent Infringement, Extraterritoriality and Exhaustion – The German Viewpoint,

https://courses.law.washington.edu/takenaka/P506ab_WiSP10/public/Goddar_Contributory.pdf

¹⁵⁹ GPA §10.

¹⁶⁰ Impeller Flow Meter (BGH GRUR 2004, 758).

¹⁶¹ Pitz, J., & Hermann, G. Territorial Scope of Protection of German Patents,
http://www.buildingipvalue.com/06EU/213_215.htm

Aiding and abetting someone to commit a direct patent infringement can in Germany result in an accessory patent infringement.¹⁶² However, it requires that the infringement is taking place in Germany.

5.4.2. Warning letter

In Germany the use of warning letters is solidly established, even though notice or communication with the infringing party is not a requirement before filing an action.¹⁶³ There is no need for the patentee to show any attempt of reaching a settlement or solution. Nevertheless, warning letters are commonly used since the absence of a warning letter might cause the patentee to stand the whole cost of an infringement action, if the infringer admits to the allegations prior to the first hearing in court.¹⁶⁴

If the claims of infringement cannot be proven, there is a risk of the infringer raising claims concerning unjustified allegations of infringement. This might lead to liability for compensating any damage imposed on the alleged infringer.¹⁶⁵ According to a recent case,¹⁶⁶ the Grand Senate confirmed the importance of preserving liability for unjustified threats in order to curb abuse of the patentee's monopoly rights.¹⁶⁷

Another result of sending a warning letter without being able to prove an infringement is that the alleged infringer can file for a declaration of non-infringement.¹⁶⁸ This action can be taken even before the patentee brings an infringement action, which means that the alleged infringer benefits from the right of choosing the forum and to some extent stands a high moral ground.

An aspect to consider is that the infringer, once being noticed of an infringement, can initiate a negative declaratory action of non-infringement in a country with a much slower, more inefficient court system.¹⁶⁹ Thus, the hearing and an eventual appeal can be delayed for several years. This behavior is made possible by the art. 6(1) of the Brussels I Regulation and is at times referred to as an "Italian" or "Belgian" torpedo action.

When sending a warning letter the patentee might also file for a preliminary injunction.¹⁷⁰ This action is mostly taken ex-parte (without the opponents knowledge of the matter), and used as a surprise attack. To obtain such an injunction the court must establish there being a probability of infringement, that the infringed patent is probable to be valid, that too much time has not elapsed from the infringing act and finally that there are economic interests at stake.¹⁷¹ In patent litigation the courts have held preliminary injunctions being allowed only in exceptional

¹⁶² GPA §9.

¹⁶³ Wilson, D. International Patent Litigation (2009), p.105.

¹⁶⁴ Heath C, Patent Enforcement Worldwide (2005), p.120.

¹⁶⁵ Chinaherde, Federal Supreme Court, 17 April 1997, GRUR 741.

¹⁶⁶ GSZ, The Grand Senate of the Bundesgerichtshof, 1/04, 15 July 2005.

¹⁶⁷ Parker, S., & Binns, R. et al. Threatening Patent Infringement Proceedings – An International Perspective, <http://www.simmons-simmons.com/docs/plisep06.pdf>

¹⁶⁸ Heath, C. Patent Enforcement Worldwide (2005), p.121.

¹⁶⁹ For example Belgium or Italy.

¹⁷⁰ Kramer A., & Ruess P. The Preliminary Injunction Explained, <http://www.managingip.com/Article.aspx?ArticleID=1321391>

¹⁷¹ Wilson, D. International Patent Litigation (2009), p.108.

cases.¹⁷² The ex-parte injunction, which is a rather unique measure, allows an injunction to be passed within a few days and without notifying the other party.

A result of a wrongfully sent warning letter is damages. Under general liability provisions in German tort law, the patentee is liable if he knew or ought to reasonably have known – negligence is enough¹⁷³ – that the patent was invalid or not infringed upon.¹⁷⁴ In order to obtain damages a direct relation between the actions of the patentee and the accused infringer's actual loss must be established.¹⁷⁵

5.4.3. Enforcement

5.4.3.1. Civil proceeding

5.4.3.1.1. Procedural limitations

There are some differences between the German patent enforcement system and the systems of other jurisdictions. The foremost difference is that Germany employs a split system in regards to infringement and invalidity proceedings; these are separated in different courts. The German system is known for being both time and cost efficient, as well as being advantageous for the patentee. However, there are some challenges with a lack of measures to preserve evidence, which have been lifted as a downside of German patent litigation. In comparison to the US concept of discovery, the measures to preserve evidence has for a long period of time been less than sufficient in Germany. In recent years this measure has been strengthened (further outlined below, in the section of preservation of evidence). Germany is one of Europe's largest markets; together with the weight of the court verdicts in other jurisdictions it can be a good choice for patent litigation.

5.4.3.1.1.1. Choice of jurisdiction

For infringement suits in Germany the correct forum is the Federal District courts¹⁷⁶. For a nullity procedure¹⁷⁷ the correct forum is the German Patent Court.¹⁷⁸

The first instance for patent cases is the German District Court. There are no specialized courts for patent matters in Germany.¹⁷⁹ Out of about 125 district courts, twelve have specialized divisions competent and specialized on patent infringement litigation. Out of these twelve, there are three district courts (Munich, Düsseldorf and Mannheim) handling the vast majority of patent disputes. The courts in Düsseldorf and Mannheim alone manages more than 100¹⁸⁰ of the about 250 to 300 patent infringement cases brought to court in Germany annually.¹⁸¹

¹⁷² Higher Regional Court of Düsseldorf, October 21 1982, GRUR 1983 79, 80.

¹⁷³ German Civil Code, Sec.276 (3).

¹⁷⁴ Parker, S., & Binns, R. et al. Threatening Patent Infringement Proceedings – An International Perspective, <http://www.simmons-simmons.com/docs/plisep06.pdf>

¹⁷⁵ Wilson, D. International Patent Litigation (2009), p.136.

¹⁷⁶ Chapter 6 GPA.

¹⁷⁷ Nullity will not be examined in detail, but is to some extent discussed in the section of invalidity, below.

¹⁷⁸ Chapter 5 GPA.

¹⁷⁹ Heath, C. Patent Enforcement Worldwide (2005), p.110.

¹⁸⁰ Wilson, D. International Patent Litigation (2009), p.103.

¹⁸¹ Heath, C. Patent Enforcement Worldwide (2005), p.114.

In regards to cross-border litigation, the Brussels I Regulation states that persons domiciled in a member state shall, with no regards to nationality, be sued in a court of that member state.¹⁸² This is the central regulation, but it is not without exceptions. One such exception is that in some cases of tort, a lawsuit can be filed where the harmful event occurred.¹⁸³ Another exception is where there is a plurality of defendants.¹⁸⁴ If there are several defendants, the action can be filed in a place where one of them is domiciled.

5.4.3.1.1.2. **Re-constructing claims**

A patent may be limited, with retroactive effect, by the patentee, by an amendment of the patent claims.¹⁸⁵ This limitation should be filed with the German Patent Office (GPO) in writing. It must include the grounds for the amendment and a mandatory fee in order to be valid.

5.4.3.1.1.3. **Limitation time**

Actions for damages must take place within three years from the time when the patentee obtains knowledge of the infringement and the infringer's identity.¹⁸⁶ Such an action has to be brought within 30 years from the date of the infringing act. In Germany, the courts have taken a restrictive approach towards forfeiture of rights in relations to patents. This is foremost due to the limited period of time for which a patent is granted. According to case law a period of 14 years is seen as unusually long but still enforceable.¹⁸⁷

5.4.3.1.2. **Defenses against claims of patent infringement**

5.4.3.1.2.1. **Re-examination**

An opposition can be filed at GPO within three months¹⁸⁸ from the publication of the grant of a patent. It shall be in writing and contain the ground for the opposition. If a notice of opposition is filed at the GPO the office will use a Board of lawyers and engineers, free from any fees, to re-examine whether the patent meets the requirements for being granted or preserved.

A patent already in force can be challenged in another instance, the Federal Patent Court, during the full length of its validity. The Federal Patent Court has initial jurisdiction and the Federal Court of Justice handles any further appeals.¹⁸⁹

5.4.3.1.2.2. **Invalidation**

The German system of separated actions for invalidity (nullity) and infringement clearly acts in favor of the patentee. The validity of a patent can only be tried in a separate opposition proceeding before either the GPO¹⁹⁰ or the EPO, or in separate revocation proceedings before a Federal Patent Court.¹⁹¹

¹⁸² Article 2, Brussels I Regulation.

¹⁸³ Article 5 (3), Brussels I Regulation.

¹⁸⁴ Article 6 (1), Brussels I Regulation.

¹⁸⁵ Section 64 GPA.

¹⁸⁶ Section 141 GPA.

¹⁸⁷ Temperaturwächter, BGH GRUR 2001, 323, 325.

¹⁸⁸ GPO is also known as Deutsches Patent und Markenamt (DPMA).

¹⁸⁹ Wilson, D. International Patent Litigation (2009), p.104.

¹⁹⁰ Section 22 GPA.

¹⁹¹ Section 81 GPA.

Once an action for infringement has been filed, nullity cannot be claimed as a defense.¹⁹² A separate action can be filed for nullity in the German Patent Court, but this can at best only delay the infringement suit. A prolonged infringement proceeding will only be permitted if the court finds that there is a high probability of the nullity proceeding being successful.¹⁹³

5.4.3.1.3. Remedies for patent infringement

5.4.3.1.3.1. Injunction

The possibility of achieving a preliminary injunction¹⁹⁴ is an attractive and quick way of ending an infringement. For patent infringement in Germany, preliminary injunctions are mostly allowed in exceptional cases.¹⁹⁵ The reason is that patent cases are seen as complicated matters; a preliminary injunction limits the possibilities to investigate the circumstances surrounding an alleged infringement. For an injunction to be granted the applicant must fulfill two provisions. First, he has to submit the claim, pointing out the alleged infringement. Second, he has to submit the reasons for an injunction. In the evaluation of the reasons there is a presumed need of urgent help from the court. If the applicant cannot show such a need it is very unlikely that an injunction will be granted.¹⁹⁶

There are two different categories of injunctions; ex-parte and inter-parte. The inter-parte injunction is the main procedure,¹⁹⁷ including an oral hearing with the alleged infringer and a decision following within a few weeks. The ex-parte injunction takes a more aggressive approach. It does not involve a hearing with the alleged infringer, thus achieving the function of a surprise to the infringer, rendering him unable to respond to the injunction until it is already served. It is usually required that a warning letter has been sent to the alleged infringer, giving him a chance to respond. The injunction is generally granted without any bond put up by the applicant.

5.4.3.1.3.2. Damages

Anyone who infringes on the rights of a patentee is liable for damages if they have acted with deliberate intent or with negligence.¹⁹⁸ The damages are determined in proceedings separate from the infringement. The infringed patentee can, for the purpose of assessing the damages, request the alleged infringer to provide details necessary for calculating the damages. If the defendant does not comply with providing these records, he faces large fines imposed until he complies.

The patentee can choose from three different alternatives for calculating the damages.¹⁹⁹ He can estimate it from his own damages, from a lost reasonable royalty or from the profit of the infringer's profit. In addition the cost of the proceedings will be paid for by the losing party.

¹⁹² Wilson, D. On the subject of Germany having no invalidity defense, due to their split system utilizing different forums for infringement and nullity. *International Patent Litigation* (2009), p.103.

¹⁹³ Heath, C. On the subject of difference between Nullity and infringement cases. *Patent Enforcement Worldwide* (2005), p.133.

¹⁹⁴ German Code of Civil Proceedings, Section 918 to 945.

¹⁹⁵ OLG Higher regional court of Düsseldorf, October 21 1982, GRUR 1983, 79, 80.

¹⁹⁶ Kramer A., & Ruess P. The Preliminary Injunction Explained, <http://www.managingip.com/Article.aspx?ArticleID=1321391>

¹⁹⁷ Wilson, D. *International Patent Litigation* (2009), p.108.

¹⁹⁸ Section 139(2) GPA.

¹⁹⁹ Heath, C. *Patent Enforcement Worldwide* (2005), p.135.

5.4.3.1.3.3. **Measures to preserve evidence**

A patentee can start a proceeding for a pre-action search order.²⁰⁰ The process can be granted by the court ex-parte, but will then require the plaintiff to show a certain degree of certainty of infringement; a “reasonable probability”.²⁰¹ He also has to show a risk of evidence being destroyed and that there is no other means of proving the infringement. This was part of the requirements before the implementation of a new section, 140(c), in the German patent act. These requirements were based on the German Civil Code.²⁰² Section 140(c) came in to effect in September 2008, meant to implement article six and seven of the European Intellectual Property Rights Enforcement Directive (IPRED)²⁰³.

From 2008, the patentee can demand an examination of the alleged infringing object, process or documentation. The examination will be executed by an expert appointed by the court. Both the expert and the counsel for the plaintiff work under a pledge of confidentiality. The extent of this measure can be discussed. There has been development in the German Federal Supreme court allowing a more extensive interpretation than previous case law, where entry into a device was refused.²⁰⁴ According to recent court decisions and the new section 140(c) it can now be possible to dismantle a device or to take samples for analysis.²⁰⁵

5.4.3.2. **Alternative proceedings**

5.4.3.2.1. **Border measures against counterfeiting products**

Infringing products can be seized by the German custom authorities.²⁰⁶ This is done in accordance with the Anti-Piracy Regulation of 1990,²⁰⁷ which was extended to cover patents in 1999.²⁰⁸ The procedure is divided into three parts; first a motion for seizure must be filed, then the actual seizure of the good and finally destruction or a court proceeding concerning the seized goods. Germany can be a good choice for actuating a border procedure. The harbor in Hamburg is one of Europe’s major ports, and the German court system is, as mentioned, favorable to patentees. When initiating the procedure the custom officials will need to determine if there is a suspicion of patent infringement.

Complicated process patents or otherwise non-obvious patent protected products can be less suitable for utilizing border measures, since the customs official might not be able to get an understanding of whether the goods is infringing or not. The procedure does not cost anything but the applicant must declare he is liable in case that the detention is unjustified.

5.4.3.2.2. **Criminal proceeding**

Criminal proceedings are available but rarely used in Germany.²⁰⁹ If a patent is infringed, the defendant could face penalties in fines or up to three years imprisonment.²¹⁰ Attempts to

²⁰⁰ German Civil Code Section 140 (c).

²⁰¹ Faxkarte, (BGH) Federal Court of Justice, May 2, 2002, GRUR, 1046.

²⁰² German Civil Code Section 809.

²⁰³ Directive 2004/48/EC.

²⁰⁴ Federal Supreme Court, 8 January 1985, 18 IIC 108 (1987).

²⁰⁵ Wilson D, Discussing the Faxkarte case. *International Patent Litigation* (2009), p.108.

²⁰⁶ Section 142(a) GPA.

²⁰⁷ Council Regulation (EC) no.3295/94, OJ of EC no.L341 of Dec. 1994, p.8.

²⁰⁸ Council Regulation (EC) no.241/1999, OJ of EC no.L27 of Feb. 1999, p.1.

²⁰⁹ Heath, C. On the subject of seizing infringing goods. *Patent Enforcement Worldwide* (2005), p.123.

commit infringement are also criminalized.²¹¹ According to newly published literature, criminal procedures have not gained any major practical importance in Germany.²¹²

²¹⁰ Section 142 GPA.

²¹¹ Section 142 (3) GPA.

²¹² Wilson, D. International Patent Litigation (2009), p.115.

5.5. The People's Republic of China

In 2007, China was among the least successful countries in the battle against IP infringement.²¹³ 15–20 percent of all consumer products in China were counterfeiting products, with a turnover appreciated to eight percent of China's BNP.²¹⁴

The western world has previously seen China as a country where intellectual property is not a matter of great concern.²¹⁵ However, this view seems to be changing. China became a member of the WTO in 2001 and is, since 2005, bound to fulfill the commitments of the membership, among these the TRIPS agreement. China implemented new patent regulations in 2009, strengthening patent enforcement and broadening the novelty criterion of inventions from national to objective and absolute. The new patent act is fully aligned with TRIPS. Some previously discriminating legislation has been discarded, which means good news to foreign companies. For example, a patent application for an invention made in China can now be filed first in foreign countries; something which was not allowed until 2009. Damages, which have previously been low, are also increasing; in 2009, a European company was entitled damages of 20 million RMB (2,1 million Euros) from a Chinese company infringing on their patent.²¹⁶

5.5.1. Infringement

5.5.1.1. Direct infringement

The current Patent Act demands any entity or individual to, without permission of the patentee, not exploit the patent through making, using, promising the sale of, selling or importing the patented product, or using the patented process and using, promising the sale of, selling or importing the product directly obtained from the patented process, for production or business purposes.²¹⁷

5.5.1.1.1. *The doctrine of equivalence*

When examining an alleged infringing product, the scope of protection corresponds to the claims but also extends to equivalents. If a solution has a cutting edge, there is a greater possibility for a more generous principle of equivalence. Inventions which are less advanced when compared to prior art will be interpreted narrowly, close to the claims.²¹⁸ The Supreme People's Court has set out some guidelines regarding the interpretation of claims in infringement trials.²¹⁹ All technical features described in the claims shall be examined. If the alleged infringing solution includes technical features identical or equivalent to all the technical features described in the claims, it is infringing. If the technical features are lacking in more than one technical features or contain more than one technical feature which are neither identical nor equivalent to what is claimed it is not in the scope of protection. The doctrine of

²¹³ Global Survey on Counterfeiting and Piracy, International Chamber of Commerce, 2007-01-13, s.3, <http://www.cpahkLtd.com/cn/publications/2008liulan/ewz.pdf>

²¹⁴ IPR Toolkit, homepage of American Embassy in Beijing,

<http://beijing.usembassy-china.org.cn/iprpatent.html>

²¹⁵ Ganea, P. Intellectual Property Law in China (2005), p.69.

²¹⁶ Interview with Guoxu, Y. Senior Attorney of CCPIT Patent and Trademark Law Office, Beijing, 100406; The Neoplan Bus case (Neoplan Bus GmbH v. Zhongwei, Zhongda Group and Zhongtong).

²¹⁷ Chinese Patent Act, art.11.

²¹⁸ Ganea, P. Intellectual Property Law in China (2005), p.75.

²¹⁹ The Interpretation of the Supreme People's Court on Certain Issues Concerning the Application of Law in the Trial of Patent Infringement Cases (2009-12-28).

equivalence also applies in cases where someone has intentionally left out one essential patented technical feature, from his otherwise equivalent solution²²⁰ (further explained in the indirect infringement section).

5.5.1.1.2. *Exhaustion of rights*

Exhaustion of rights, the principle which set the limits for how far a patentee may exploit his invention towards his customers, applies with respect to a patented product or a product obtained by a patented process. The product must have been put on the market with the consent of the patentee.²²¹ The exhaustion in China is international; hence the right to prevent importation of the patented product or a product of a patented process is consumed when it is put on the market anywhere, with consent. The exhaustion principle is of importance also when determining whether an act is repairing or reproducing. However, this issue has not been addressed in written patent law. In regards to invention patents, there has been no similar case.²²² It should be noted that Chinese courts are not bound by precedent cases; they only serve as a reference.

The issue of how a patentee can restrict downstream purchasers has not been explicitly addressed in any court case in China. There are no such limitations in regards to contracts in the patent law; the dominant view is that exhaustion of rights applies from the consumer.

5.5.1.2. **Indirect infringement**

There are no definitions of direct and indirect infringement in the Chinese patent legislation.²²³ However, indirect infringement as such is currently under discussion. The legislation authority considered it being too early to introduce the indirect concept into the Chinese patent act at the latest amendment of the patent law (2009). Indirect infringement is not explicitly addressed. There are several rules in the Chinese civil legislation proving that also parties not involved in immediate infringement but in some way inducing another party to infringe can be held liable.²²⁴ There are individual cases in which courts have used the concept of joint infringement provided in civil law.

The question that follows is whether a contributory infringement requires a direct infringement or if it can be prosecuted independently of the actual infringement. The dominant view is that joint infringement is possible if there is a direct infringement, if the part which is provided is essential and if there is an intention to induce the direct infringer to infringe.

*"If two or more persons jointly infringe upon another person's rights and cause him damage, they shall bear joint liability".*²²⁵ Thus it is not needed to use any concepts of indirect infringement; meaning that the joint infringement doctrine should be treated under direct

²²⁰ Beijing Higher People's Court, China Patents & Trademarks 2004 No.2, 37.

²²¹ Chinese Patent Act, art.69.

²²² Interview with Quing, G. Attorney of Liu, Shen & Associates, Beijing, 100322.

²²³ Interview with Guoxu, Y. Senior Attorney of CCPIT Patent and Trademark Law Office, Beijing, 100406.

²²⁴ Rule 148 of the Supreme People's Court Opinions on Certain Questions on Several Issues Relating to the Implementation of the General Principles of the Civil Law (1992).

²²⁵ General Provisions of Civil Law, art.130.

infringement.²²⁶ However, if a component should be of no other use but for the patented product, it might also be an act of patent infringement.²²⁷

There is an additional independent infringement doctrine, stating that even in the absence of an act of direct infringement an indirect act could be prosecuted independently of the direct infringement.²²⁸ These provisions, offered by the Beijing People's Higher Court, are the first specific provisions on the proceedings of patent infringement. The doctrine notes that the infringement provisions provided for in the patent act does not offer sufficient protection for a patentee. To avoid some technical features of a patented product, perhaps through selling pieces which a customer easily enough could assemble, might be an indirect infringement to the court.

5.5.2. Warning letter

There are no legal mandatory requirements in regards to warning letters. There is no need to inform the other party before bringing an action to court. Sending a letter could be of use in order to prove that the infringer knew about the infringement, which is a factor that could affect damages. However, it is rather trivial in regards to damages. In order to obtain high damages in China, the patentee must show good evidence of the profit made by the infringer. He will otherwise be entitled only to statutory damages (see further in damage section).

Sending a warning letter means a large risk of alerting the defendant to the situation. If alerted, he might sweep off the evidence or even sell his whole business/products. Evidence collection would become very hard. Another problem experienced in regards to evidence collection is that some patents are incorporated into large and expensive equipments, which a patentee might not afford to buy in order to examine it.²²⁹

There is also a risk of a response in form of a non-infringement action if the infringer believes that he does not infringe, or of an invalidation action if the patent is weak. There are possibilities for the infringer to seek a declaration of non-infringement from the court, which is fairly similar to a negative declaratory action. Since 2002 there has been brought an increasing amount of non-infringement actions.²³⁰

In January 2010, the Supreme People's Court issued some guidance to patent trials, in relation to warning letters.²³¹ Previous to the guidance, there were some legal concerns to a patentee who wanted to send a warning letter. An alleged infringer who had received a warning letter could proceed to his local court immediately, to get a declaration of non-infringement. If the

²²⁶ Zheng, W. Global Survey on Counterfeiting and Piracy, International Chamber of Commerce, <http://www.cpahkLtd.com/cn/publications/2008liulan/ewz.pdf>

²²⁷ Interview with Guoxu, Y. Senior Attorney of CCPIT Patent and Trademark Law Office, Beijing, 100406

²²⁸ The Beijing Higher People's Court Opinions, 2001, items 73-80.

²²⁹ Interview with Guoxu, Y. Senior Attorney of CCPIT Patent and Trademark Law Office, Beijing, 100406

²³⁰ Noted by Heath, C., & Petit, L. Patent Enforcement Worldwide (2005), p.287.

²³¹ Interpretation by the Supreme People's Court on Some Issues Concerning the Application of Laws to the Trial of Patent Infringement, art.18.

court accepted the action, the court would also get jurisdiction for any future civil litigation related to the patent. In this way, the infringer had the advantage of being in his home court.²³² Today, an alleged infringer who receives a warning letter must start by sending a reply urging the patentee to claim the patent right through legal proceedings. He must then wait at least one month before he files an action with a court for a declaration of non-infringement. A result is that patentees who previously resisted sending warning letters to infringers, due to the possibility of facing the infringer in the infringer's local court, now can make greater use of warning letters as part of their enforcement strategy. However, to patent litigation practitioners, so far there seems to be no change in behavior.²³³ The SPC guidance has made it clear how non-infringement actions may be used, but it is still hard to predict the outcome of a process and a warning letter might hinder collection of evidence; it is therefore not used to any larger extent.

5.5.3. Enforcement

5.5.3.1. Civil proceeding

5.5.3.1.1. Procedural limitations

5.5.3.1.1.1. Choice of jurisdiction

In infringement situations there are often problems to locate the manufacturer, who is in most cases the real litigation target. Some areas in China harbors organized chains were one company collects raw material, several companies manufactures parts, someone assembles them and some company sells. The company registration costs are low, and it is often difficult to find out which company that is the actual infringer.²³⁴

A patent infringement action can be brought both where the infringement took place and at the place of domicile of the defendant.²³⁵ This could be the place where the product was manufactured, used, offered for sale, sold or imported, also including places where the consequences of the infringement would be obvious.²³⁶

If the patentee files an action only against the manufacturer of the infringing products and not against the seller, and the place of manufacturing of the infringing products is not the same one as the place of selling, the People's Court of the place of manufacturing shall have the jurisdiction. If the manufacturer and the seller are sued as joint infringers, the People's Court of the place of selling shall have the jurisdiction. In several cases, the seller is therefore included in the infringement action, in order to get a good jurisdiction. The problem with bringing an action in the domicile of a manufacturer is that local interest will try to protect their interests. It is therefore not a good jurisdiction to be in, it is better to sue where the sellers are.²³⁷

²³² Rouse IP, Alert 351 - China - New Guidance in Patent Infringement Actions, <http://www.iprights.com/content.output/909/909/Resources/Alerts/Alert%20351%20-%20China%20-%20New%20guidance%20in%20patent%20infringement%20actions.aspx>

²³³ Interview with Quing G. Attorney of Liu, Shen & Associates, Beijing, 100322.

²³⁴ Interview with Quing G. Attorney of Liu, Shen & Associates, Beijing, 100322.

²³⁵ Chinese Civil Procedure Code, art.29.

²³⁶ Several Provisions of the Supreme People's Court on Issues Relating to the Application of Law to Adjudication of Cases of Patents Disputes, art.5.

²³⁷ Interview with Quing, G. Attorney of Liu, Shen & Associates, Beijing, 100322.

A patent infringement case in China generally starts in an Intermediate People's Courts²³⁸; this being the second level out of four, of court instances. Only the intermediate courts in the capitals of the provinces or regions, or those specially appointed by the Supreme People's Court, have jurisdiction. The costs of patent enforcement in a Chinese court are lower than other jurisdictions, but it is still expensive.²³⁹

At the moment, the chances for a right holder to succeed in an infringement action are the largest if he files his claim with a court in Beijing or Shanghai. These are the courts where the most experienced judges and best patent attorneys are located. 88% of all patent infringement cases, with foreign right holders, are determined in these areas,²⁴⁰ and they have adjudicated 83% of the large-damage cases (more than 50.000 Euros). Therefore, salesmen in Shanghai or Beijing are often sued as co-defendants. Other important areas are Jiangsu, Zhejiang and Guangdong, as these cost areas are well-developed and hosts IP experienced courts.²⁴¹

5.5.3.1.1.2. **Re-constructing claims**

The claims can be limited, but new features may not be added. This amendment is only allowed during an invalidation proceeding.

5.5.3.1.1.3. **Limitation time**

There is a two years limitation for taking civil procedural actions, from the time when the right holder knew or had reason to know of the infringement.²⁴² Hence, damage can only be claimed for two years from when the patentee had reason to know. The same applies for a request of cessation of the infringement.

If someone is using the invention after the application of a patent is published, but before the patent is granted, the patentee may claim royalties for a maximum of two years starting from the date when the patentee had reason to know that his invention was illegally used by someone.²⁴³

5.5.3.1.2. **Defenses against claims of patent infringement**

5.5.3.1.2.1. **Re-examination**

Anyone can file an invalidation action with the State Intellectual Property Office (SIPO), at any time. China does not offer any other opposition procedure. However, the patentee may initiate an invalidation procedure himself. He can only request partial claims to be invalidated, not the whole patent. He can also ask for a validity analysis of his own patents; a rather cheap procedure (5000 RMB/500 Euros) performed by a branch of the SIPO – Patent Research Center.²⁴⁴

5.5.3.1.2.2. **Invalidation**

²³⁸ Several Provisions of the Supreme People's Court on Issues Relating to the Application of Law to Adjudication of Cases of Patents Disputes, art.2.

²³⁹ Costs compared by Heath, C. & Petit, L. Patent Enforcement Worldwide (2005), p.288.

²⁴⁰ Theory and Practice Related to Patent Infringement Damages, China Patents & Trademarks No.4, 2009.

²⁴¹ Ming, D., Kang, F., & Yuhe, W. Patent Enforcement and Litigation in China, Seminar at Awapatent Gothenburg, 100325.

²⁴² Chinese Patent Act, art.68.

²⁴³ Chinese Patent Act, art.68 st.2.

²⁴⁴ Interview with Guoxu, Y. Senior Attorney of CCPIT Patent and Trademark Law Office, Beijing, 100406.

The invalidity action can be brought by anyone, at any point of time after the patent is granted.²⁴⁵ It should be noted that the invalidation is filed not with the court, but with the Patent Reexamination Board (PRB) at the SIPO. There are 12 legal grounds to which a patent can be invalidated.²⁴⁶ If the patent is invalid, it is deemed never to have existed.²⁴⁷ There is no retroactive effect of patent invalidation on any decision concerning handling a patent dispute, or on any patent license given before the patent right was found invalid.²⁴⁸ Royalty payments and infringement compensations which are already paid shall not be refunded. Nevertheless, if the patentee was in bad faith, he will have to compensate the damages he has caused.²⁴⁹

Statistics show that 10-15% of the patent invalidation decisions are brought to court each year, by dissatisfied patentees. 10% of these decisions are overturned in first instance, and another 10% are further appealed and overturned in a higher instance.²⁵⁰ The courts and the PRB do not seem to fully share the same view of patentability, or at least not investigate to the same extent.

Infringement liability and patent validity are split into two actions, which are not to be treated in the same trial.²⁵¹ A defendant cannot claim invalidity as a direct defense; he has to bring a separate invalidation action to SIPO. However, in the matter of invention patents, the court may stay in litigation proceeding until the patent office has made a decision.²⁵² The court would then normally inform about the procedure being pro-longed while they are waiting for the decision from PRB, as this makes it easier for the courts. Patent invalidation petitions are the defense strategically most frequently used in Chinese patent infringement litigation.²⁵³ An invalidation application helps a defendant in situations where he is not prepared for the forthcoming law suit, and the patentee might claim evidence or property preservation measures from the court.²⁵⁴

An invalidity decision would consume about 6-9 months, in first instance. If the decision is appealed to court – something which is called administrative litigation – it could be one more year.²⁵⁵ The court and the PRB normally share the same view on the patentability. There are more and more cases being appealed to administrative litigation, meaning that the burden on the courts increases. The courts are also put on a certain time limit; they cannot let a case consume too much time.

5.5.3.1.3. Remedies for patent infringement

5.5.3.1.3.1. Injunctions

²⁴⁵ Chinese Patent Act, art.45.

²⁴⁶ Implementing Rules for the Patent Law of the PRC, art.64 §2, Chinese Patent Act, art. 22, 23, 26 (3-4).

²⁴⁷ Chinese Patent Act, art.47.

²⁴⁸ Shi, Y., & Jiao, H. Comments on How the Third Amendment to the PRC Patent Law Will Affect Patent Infringement Litigation, IP Bulletin July 2009.

²⁴⁹ Chinese Patent Act, art.47.

²⁵⁰ Liu, Y. Grounds for Invalidation Applications in Patent Disputes, IP Bulletin 2008 Special Issue.

²⁵¹ Heath, C. & Petit, L. Patent Enforcement Worldwide (2005), p.295.

²⁵² Several Provisions of the Supreme People's Court on Issues Relating to the Application of Law to Adjudication of Cases of Patents Disputes, art.8,11.

²⁵³ Liu, Y. Grounds for Invalidation Applications in Patent Disputes, IP Bulletin 2008 Special Issue.

²⁵⁴ Liu, Y. Grounds for Invalidation Applications in Patent Disputes, IP Bulletin 2008 Special Issue.

²⁵⁵ Interview with Quing, G. Attorney of Liu, Shen & Associates, 100322.

A patentee might want to get an injunction against the infringer, in order to end the infringement. Interim injunctions have recently been recognized in Chinese patent law. The patentee must bring sufficient evidence that someone is infringing or is going to infringe on his patents, that his rights will thus be damaged and that there will be difficulties to remedy the infringement.²⁵⁶

The patentee must also provide a deposit for the injury that the preliminary injunction might cause the defendant, when he files his application with the People's Court. The application will otherwise be rejected.²⁵⁷ The court has 48 hours, from the acceptance of the application, to make a ruling on the matter. If the ruling is positive, it will be executed immediately. If either of the parties does not accept the ruling, he may apply for one review; however, the execution is not suspended during the process of review.²⁵⁸ After an interim injunction is ordered, the applicant has 15 days to file an infringement suit. If he does not, the court will remove the preliminary measure.

5.5.3.1.3.2. Damages

There have previously been very low levels of damages in China. As international companies increasingly enter the Chinese litigation arena, this is changing.²⁵⁹ However, to practitioners, the damages are still low. The courts tend to order statutory damage, if the patentee cannot provide evidence of the profit of the infringer. The Patent Act demands higher damage levels since 2009. The expectations are that the courts will comply with the legislation.²⁶⁰

The compensation in an infringement case is based on actual damages by the right holder. If this cannot be determined, the damage will be calculated on the illegal gains made by the infringer. If it is not possible to find an amount for the gains, the damage is determined as the multiple of the royalties for the patent. To the above methods are also added a reasonable investigation cost. If royalties cannot be determined, the court will base a statutory damage on factors such as the type of patent and the particulars of the infringement, from RMB 10.000 yuan up to RMB 1.000.000 yuan.²⁶¹ There is no demand on the loser of a Chinese trial to pay the costs of the winner, but the plaintiff will normally include the trial costs in the claimed damages.²⁶² Once an infringement is confirmed by the court, a cease and desist order is usually sought and granted. The court may also allow confiscation of infringing goods or property used to carry out infringement.²⁶³ If the patentee has suffered serious damage, the court may order the infringer to issue a declaration in which he confirms the infringement, to be published in newspapers.²⁶⁴

A risk with litigation is that the patentee might be left with the costs of the court proceeding. Even if the defendant has lost his case, he might not have sufficient property left to pay the

²⁵⁶ Chinese Patent Act, art.66, Several Provisions of the Supreme People's Court for the Application of Law for Stopping Infringement of Patent Rights Before Instituting Legal Procedures.

²⁵⁷ Chinese Patent Act, art.66 st.2.

²⁵⁸ Chinese Patent Act, art.66 st.3.

²⁵⁹ Heath, C., & Petit, L. Patent Enforcement Worldwide (2005), p.303

²⁶⁰ Interview with Quing, G. Attorney of Liu, Shen & Associates, 100322.

²⁶¹ Chinese Patent Act, art.65 st.2.

²⁶² Ladas & Parry LLP, Patent Litigation in China,

http://www.ladas.com/Litigation/ForeignPatentLitigation/ChinaPR_Patent_Litigation

²⁶³ The General Principles, art.118.

²⁶⁴ Heath, C., & Petit, L. Patent Enforcement Worldwide (2005), p.305

compensation, which the patentee has to ask the local court to enforce. An alternative offered to the patentee is to ask the court for property preservation before the trial. This is a rather risky business, as the patentee has to deposit a bond to protect the defendant. Should the patentee lose his case, the defendant could claim damages caused by the preservation.²⁶⁵

5.5.3.1.3.3. Measures to preserve evidence

The TRIPS requirements on provisional measures to preserve evidence are implemented into Chinese legislation. A patentee may apply for preservation of evidence, when the evidence is likely to be destroyed and it would be hard to obtain it again.²⁶⁶ The court may order the applicant to provide a deposit for the preservation. If he does not comply, his application will be rejected. As with the interim injunction, the court has 48 hours to make a ruling on the matter. If the ruling is positive, it will be executed immediately. The applicant then has 15 days to initiate an infringement suit; the court will otherwise terminate the measure.

5.5.3.2. Alternative proceedings

5.5.3.2.1. Border measures against counterfeiting products

China complies with TRIPS in matters of border enforcement, covering both import and export of goods. This means that they offer a patentee with valid grounds for suspecting that import/export of goods involving patent infringement may take place, to file an application for confiscation by the customs authorities. The patentee must provide sufficient evidence of the infringement and supply a detailed description of the goods. The patentee will be required to provide a deposit to protect the defendant.

5.5.3.2.2. Criminal proceeding

Infringement of a patent is criminalized in China, if it has been done willfully and with awareness.²⁶⁷ The action is instituted following a complaint by the patentee. Not only individuals but also organizations (legal persons) can be prosecuted. An individual with illegal sales of more than 100.000 RMB (10.000 Euro) could be held criminally liable. A company with illegal sales of more than 500.000 RMB (50.000 Euro) can also be held criminally liable.²⁶⁸ The distinction between individual and organization is that the crime applies to the individual, if that individual sets up a company with the main purpose of committing an IP infringement.²⁶⁹ Penalties are fines and/or up to three years of imprisonment.

5.5.3.2.3. Administrative proceeding

China offers a triple enforcement system; apart from civil and criminal proceedings, there are also administrative proceedings. Once a choice of proceeding has been made, for either civil or administrative proceeding, it is not possible to change the decision.²⁷⁰ A criminal proceeding can still be brought in parallel. The administrative authorities may not prosecute acts under the Criminal Code. If a patentee decides to use administrative enforcement, the defendant can still challenge the validity of the patent at the court with jurisdiction of the administrative agency.

²⁶⁵ Interview with Guoxu, Y. Senior Attorney of CCPIT Patent and Trademark Law Office, Beijing, 100406.

²⁶⁶ Chinese Patent Act, art.67.

²⁶⁷ Chinese Criminal Code, art.216.

²⁶⁸ Guidelines Criminal Prosecution, art.64.

²⁶⁹ Heath, C., & Petit, L. Patent Enforcement Worldwide (2005), p.316-317.

²⁷⁰ Measures for Administrative Enforcement of Patents (2001), SIPO, section 5 (1) 5.

An administrative adjudication is initiated at the local SIPO, where the infringement act is taking place. SIPO has one office in each of China's administrative regions, in order to coordinate the IP enforcement. SIPO also grants patents, and have the authority to order injunctions, cease and desist orders and fines. An action ordered by SIPO may be appealed to the Intermediate People's Court. A decision of SIPO has no weight in subsequent cases.

The administrative procedure is considered faster and cheaper than going to courts, if the decision is not appealed.²⁷¹ The administration only has authority to order injunctions or to mediate to reach a reconciliation agreement; not to order damages. If the defendant does not comply, SIPO will apply for a court order to do so. There is normally no fines involved, which might make it easier for the infringing party to comply and cease certain activity. Damage compensation and pre-litigation measures, such as evidence preservation measures, are infringement remedies available only through a civil proceeding.

In general, patent disputes are mostly brought to court instead of administration, since they are of a fairly complex nature.²⁷² Administration proceedings are more common in for example trademark cases, where the infringement is easier to prove. There is also a risk that local protectionism or lack of resources might lead to patent infringements investigations not being sufficiently managed, and there is no time limit as to when SIPO should render its decision.²⁷³ The administration procedure is not time efficient. There are three instances to go through, while civil proceedings only have two instances, and the investigation takes just as much time as it does in court.

²⁷¹ Heath, C., & Petit, L. Patent Enforcement Worldwide (2005), p.285.

²⁷² US Embassy in Beijing, IPR Toolkit, <http://beijing.usembassy-china.org.cn/iprpatent.html>

²⁷³ Liang, J. An Overview of Patent Litigation in China, <http://www.csptus.com/newsletter/OPL-China.pdf>

6. Arbitration

6.1. Enforcement

International enforcement of awards which are outcomes of arbitration tends to be easier than enforcing court judgments.²⁷⁴ This is due to the fact that most nations, including Sweden, US, Germany and China, have adopted the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). Most states require that if the proceedings have met standards of fairness, agree with the public policy and concern an arbitrable issue, the awards rendered under the laws of a foreign nation will be enforced.²⁷⁵ If there is an arbitration clause in the contract, it blocks the path to court. The issues arising from the agreement should be referred to arbitration.

6.2. Benefits

The general advantage of the consent-based arbitration procedure is its confidentiality and the ability of the parties to appoint expert arbitrators. The parties to an infringement proceeding will often not want to have internal documents or the specifics of patents being litigated in open court. With arbitration, the existence of the arbitration, any evidence, awards, etc. will not be divulged to third parties. Thus, there will be no harm to other business relations. However, arbitration does not vouch for complete confidentiality. There is always a risk that the award will have to be enforced in court.

Given the technical nature of patent disputes each party would likely prefer to appoint arbitrators with expert knowledge. This is not the same as an expert determination, but an arbitrator with some understanding of the subject matter probably gives more confidence in the process. The parties are free to select applicable law, thus they can choose a forum neutral to both of them. They can also select or exclude certain remedies.

6.3. Remedies and arbitrable issues

In regards to remedies, arbitrators can normally order damages needed to compensate the injured party, while punitive damages are disputed. Other remedies will depend on the agreement between the parties, the law of the arbitration forum and the rules set up in the arbitration agreement. The remedies must be kept within the line of what would be enforceable in the chosen jurisdiction. The arbitrators could normally order an interim injunction on request of either a patentee or a licensee, just as a court. However, the parties can agree to limit the remedies.²⁷⁶ It is, for example, possible to make injunctions conditional.

The possibilities for invalidation of a patent remain a disputed question. A small group of countries, among these the U.S, allow for invalidation to be enforced after arbitration – at least between the parties. The effect in these countries are normally only between the parties. The major part of the New York Convention members, including Sweden, Germany and China, does not allow enforcement of a patent invalidated through arbitration, even if both parties should

²⁷⁴ Harvard Journal of Law and Technology, vol.19, nr.2 (2006), Patent Arbitration Worldwide, article by Smith, Cousté, Hield, Jarvis, Kochupillai, Leon, Rasser, Sakamoto, Shaughnessy and Branch.

²⁷⁵ New York Convention, note 10, art.V(1)(c).

²⁷⁶ New York Convention, note 10, art.V(1)(c).

agree to the matter being arbitrable. This is due to regards to the public interest; arbitration of invalidity inter partes might be conflicting. Even if there is strong evidence pointing in the direction of invalidation, this will not become known to the public if the invalidity is dealt with in a confidential proceeding. The validity issue is currently under discussion in Germany, which could open doors for future possibilities of arbitration.

6.4. Effect on later proceedings

Arbitration on infringement or validity between two parties has, in most countries, an effect on later proceedings between the parties (*res judicata*). However, the effect of the award on third parties, or on future disputes between a third party and one of the parties to the arbitration procedure, is very uncertain.²⁷⁷

Despite the benefits, arbitration has not been a success in regards to taking the workload of patent cases off public courts.²⁷⁸ When the dispute cross nation borders, there are some hinders both in law and practices which might hinder parties interested in this solution.

²⁷⁷ Harvard Journal of Law and Technology, vol.19, nr.2 (2006), Patent Arbitration Worldwide, article by Smith, Cousté, Hield, Jarvis, Kochupillai, Leon, Rasser, Sakamoto, Shaughnessy and Branch, p.315.

²⁷⁸ Harvard Journal of Law and Technology, vol.19, nr.2 (2006), Patent Arbitration Worldwide, article by Smith, Cousté, Hield, Jarvis, Kochupillai, Leon, Rasser, Sakamoto, Shaughnessy and Branch, p.317.

7. Litigation Strategies

Litigation strategies is not an area where every possible scenario can be covered. It would be impossible to make a universal guide that will be applicable in all situations. The circumstances and context of every individual case dictate what strategic options there will be available in that specific case. The aim of this section is therefore not to cover all potential scenarios of patent litigation, but rather to point out key issues needed to be managed efficiently to make use of the patent portfolio of a large company.

Litigation is only one of the options to use when enforcing patents and, to add to that, a very expensive alternative which is enforceable only on a territorial basis. Thus, litigation should be used only when potential tradeoffs are understood and worthwhile. In short, this means not very frequently.²⁷⁹

The discussion will focus first on what can be done to prevent litigation in regards to different types of infringement; both infringements of the company and by other companies. It will then proceed to clarify which possibilities a company could gain in relation to litigation strategies.

7.1. Starting-point

7.1.1. The importance of a clear goal

When initiating the construction of a litigation strategy, the first question is *why* to use resources on such a strategy. The answer will differ between companies. It is essential to keep that answer in mind, as a goal throughout the building of a strategy.

The use of patents within the company should be defined, has it not already been subject to a strategy. After defining the patent strategy, the company should be more aware of what value there could be drawn from the use of patents; hence be aware of what it would lose if it cannot protect them. Not only external factors, such as application area and competitors use of strategies will affect the choice of strategy, but also internal factors. Within a company, several actors will be affected by the chosen alternative; these actors are likely to have different views on how patents should be used, depending on what would be most suitable for them. This means a risk that the overall goal of the company use of patents could become diffused or unclear. A general strategy will not suit all parts of the company equally well and the goal is therefore often dependent of having a good backing in the management team to gain acceptance throughout the company. There is often a cultural resistance of implementing a change of strategy. There is also a challenge in that patents historically often have been treated passively and at a low level in companies.

In the global setting where companies work today there is a need to understand that a litigation strategy needs to take a lot of different aspects into consideration. The litigation strategy must support the business model. Depending on the markets that the company operate in, different jurisdictions and legal rules applies in regards to enforcement of patents. The patent enforcement system is territorial and the differences between the nations are, despite the TRIPS agreement, often large. Some examples of these differences are the extensive concept of discovery in the U.S and the split patent enforcement system in Germany.

²⁷⁹ Kline, D., & Rivette, K. Rembrandts in the Attic – Unlocking the Hidden Value of Patents (2000), p.47.

To further add to the complexity, production and assembling of parts and sales of infringing companies are often not restricted to one country. The complicated connections in regards to cross-border infringement and contributory infringement create an extensive grey zone. In this grey zone the companies might be at risk, either by their own actions or by potential infringer's actions. The uncertainty created by these conditions can be inhibitory for the company, making it passive, since it might not know what it can do or what it might be exposed to.

For a company trying to exploit a market there is a need to know where it is positioned in regards to the market and to competitors. In order to fully utilize a market the company needs to know to what degree it can use its products and rights. When the above question occurs, concerning whether it can act in a certain way without risks of infringing on other's right, it is left with two poor choices. It can either proceed in the dark, risking being sued for infringement, or seize the activity resulting in a less efficient utilization of products and rights. A clear goal will enable the company to construct their patent litigation strategy in such a manner that it becomes an efficient tool to be utilized in line with the overall business strategy.

7.1.2. Communication

Active management of patent litigation and litigation strategies will benefit companies largely. An approach, notable among large Swedish manufacturing companies, is that *patent litigation* is synonymous with extreme costs, risks, time-consumption and a complexity demanding far more resources than they are willing to put in.²⁸⁰ Even in some situations where litigation experts, after examination of an infringing product, tell companies that they are losing value from an obvious infringement – this being cases where there is little doubt that they would win – the companies choose not to bring an action to court.²⁸¹ There are too many risks to it; it costs too much. It is too complex. It also distracts business operations and it consumes way too much time.

Of course, some products will, through today's rapidly evolving technology, peak only during a very short life-cycle. An infringement trial would last at the very least for one year, but more likely it would be a resource-consuming thorn in the eye for a lot longer. The product could be forgotten by customers before the costs of a first instance decision are paid. However, a litigation case has more numbers to it than visible when looking at possible damages, value of the product, attorney costs, chances of winning that single case and the expected time-frame.

When examining whether the company is able and willing to litigate it is not only about that separate case of infringement. It needs to be understood that *litigation strategies* is something quite different from a single case of litigation. Litigation strategies are about being able to manage the complexity of litigation – the business effects – to support the business goals and add value.²⁸²

This is the main point – first of all, the litigation strategy must support the business goals.²⁸³ Patent litigation can both strengthen and protect a company's market position.²⁸⁴ The strategy is

²⁸⁰ Interview with European Patent Attorney.

²⁸¹ Interview with Partner of a large Swedish law firm.

²⁸² Shearer, R. *Creating New Wealth from IP Assets* (2007), Chapter "Value-added litigation".

²⁸³ Interview with Head of Group IP, large Swedish manufacturing company.

a matter of communication; in some aspects much like a marketing campaign. The marketing department often understands the communicative value of litigation, meaning that trademarks often are well monitored and enforced not only by the legal department but also encouraged and initiated by the marketing staff.²⁸⁵ Some companies – unwilling to litigate patents – are surprisingly well aware of their brand value. They tend to see a trademark as extremely valuable property. One trademark or brand is often nurtured by the company for decades, while a patented product to a large company is only one among many others.

Building a pro-active patent litigation strategy is not only about laying the best possible foundation for winning the single case; it is about sending a message. The company will position itself in regards to the protection of its products. Once the litigation strategy is well established through internal structures, the message the company sends towards competitors and customers is that they are aware of their rights, monitoring the market and ready to enforce the patents. Chances are that the company will not have to manage many litigation procedures against competitors. Without a strong position in regards to patent enforcement, even customers might use a tempting opportunity to support their own offensive business strategies. It is all about the money. In the best of situations, once a company has built a strategy, it can benefit from increased market shares.

7.1.3. Being active or passive

Patent litigation can simply put be used either by you or against you. Companies choosing not to develop strategies to deal with infringement and patent suits are vulnerable not only in regards to protecting their own patents, but also in regards to a litigation proceeding being initiated by a competitor or even to the threat of a litigation proceeding.

The choice to be more passive when dealing with a company's patents is mostly generated by a cultural aspect. The primary use of the patents is often not as a negative right, a protection or a strategic tool. Instead it is used as an indicator of value and the state of the company towards competitors, banks and potential collaborators.²⁸⁶ This approach is, if it is not combined with a broader patent strategy, a blunt tool disregarding many of the value creating effects of the patent. The choice to be or remain passive is often the easier alternative since it requires only limited resources and knowledge. The disadvantages are nevertheless that the full value of the patent is never to be utilized; the action might in the long run put the company in a serious risk of being disadvantaged in a litigation situation.

The complex nature of patent litigation strategy has been described as an obstacle to many individuals and organizations.²⁸⁷ In comparison, the more accessible concept of "brand" and enforcement in regards to counterfeiting has become a well utilized tool for product protection to large companies. In some companies, the IPRs are treated as if they were one type of protection. This is a faulty conclusion; patent rights and trademark rights target different parts of protection and should not be seen as different means to obtain the same thing. The IP rights should rather be seen as complimenting parts of assistive means for a company to protect its business models on the market. A trademark or design right does not offer full protection to a

²⁸⁴ Shearer, R. *Creating New Wealth from IP Assets* (2007), Chapter "Value-added litigation".

²⁸⁵ Interview with Partner of a large Swedish law firm.

²⁸⁶ Interview with CEO of a Swedish manufacturing company.

²⁸⁷ Interview with Partner of a large Swedish law firm.

product; neither does a patent. Both need to be managed to support the business model and make the most value.

A company setting is usually, in regards to large companies, global. A strategy to manage and use the advantages from IPRs in general and patent litigation in particular needs to consider that an infringement is set in several complicated arenas; both business wise and legally. These arenas are cramped with multiple jurisdictions, actors and uncertain conditions. The need to ensure control of the company's rights and to obtain a good view of the external environment is essential, in order to be able to act assertive and precise. Without this control the company risks becoming involuntary passive in relation to its IPRs. If the IPRs are not managed on a regular basis, the workload of monitoring and taking on a potential infringer can become too extensive for a company to determine it worthwhile to pursue the matter. The option to do nothing might be considered a reasonable alternative from a cost perspective, but if the decision is made due to the company's lack of management of their IPRs instead of being a strategic decision in an enforcement strategy, the long-term damages will by far outweigh the short-term cost savings from ignoring an infringement.

Companies do often not become aware of the importance of their patents until an infringement occurs. The discussion starts after the damage is already done, and systems to prevent the same situation occurring again are put in place. A smart company will adapt to the problem that occurs, but an even smarter company will foresee the situation and develop strategies to make sure that the threat of patent suits can be managed, if an infringement occurs, or even avoided.

7.1.4. Awareness creates opportunities

To offer the most value, the litigation strategy needs to be aligned with the patent strategy, and the patent strategy needs to be aligned with the business strategy. Strategic patent management could strive for protection of R&D or of market shares, where patents are used to suppress competition. It could also aim to create cash from licensing out non-differentiating technique, or to build a large patent-portfolio to use as bargaining in an infringement situation or to negotiate cross-licenses. In "Intellectual Property and Entrepreneurship" Ulf Petrusson reasons around the incentives for large companies to have a strategy for the use of their patents. Some aspects of patenting could be "to prevent copying, to prevent others from patenting related technology, to prevent patent infringement suits, to improve position in cross-license deals, to enhance the reputation of the firm, to obtain license revenues and to measure the performance of the firm's researcher".²⁸⁸

Patent litigation strategies can be discussed from different concepts, for example as being defensive, protecting own patents, or offensive, creating freedom to operate. An alternative approach is to discuss companies being more or less aggressive. If a company is aggressive and aware in enforcing its rights in regards to being defensive, it will most likely also be aggressive to the same extent in exploring the weaknesses of competitors. It will focus on winning customers, profits and market shares.²⁸⁹ Meanwhile, a company that does not have a strategy for how to protect its patents will not be able to be aggressive in any sense. They will not be able to benefit from litigation. Previously, large manufacturing companies have used a bit of competitors'

²⁸⁸ Petrusson, U. Intellectual Property and Entrepreneurship – Creating Wealth in an Intellectual Value Chain (2004), p.18.

²⁸⁹ Shearer, R. Creating New Wealth from IP Assets (2007); Chapter "Value-added litigation".

innovations and vice versa, under the silent understanding that they will not attack each other. Some of them have adapted to the situation, now basically locked in a glass house position.²⁹⁰ These companies are visible and vulnerable both to value-aware competitors and to other companies with litigation-aggressive business models. The manufacturing companies are not aware of the risks. Hence they are not able to be aggressive enough to strengthen their business and create value from litigation, since they see the possible value only as costs.

Some companies have business models which might benefit more from being aggressive, while others find a less hostile approach to be better aligned with their goals. The important part is that the strategy is aligned with the business strategy. There are even companies which have found further use of litigation, using the mere threat of litigation as part of their business strategies. An example can be taken in the case of Barr Laboratories and Eli Lilly, where Eli Lilly paid Barr \$4 million to withdraw a challenge of Lilly's Prozac patent. The CEO of Barr later made no excuses for an element of the company's business strategy being to look for breakable patents, which could be challenged.²⁹¹ The dual enforcement system in Germany invites aggressive companies to use the split infringement/validity procedure as an effective litigation weapon.²⁹² An aggressive patentee might own a weak patent with too broad claims, enforced towards an infringer, and the validity procedure might not be through until years after the infringement trial.

In order to gain competitive advantage, a company needs to find the advantages which the external surrounding offers. This is valid both in regards to making good business deals and to use the judicial arena to its full potential. The company needs to implement structures to use these advantages, to make the most value out of them. In regards to patent litigation, a company first needs to understand the challenges and benefits of litigation in different jurisdictions, in order to learn how aggressive it can be in defensive and offensive strategies, to make use of patent litigation as a tool to pursue larger business interests. Second it will need to implement the necessary functions within the company. Once it has done so, these functions will enable operational personnel not to be disrupted by the complexity of patent litigation. The staff will be able to focus on building products to solve the problems of customers.²⁹³

7.2. Definition and discovery

Infringement is, to many business executives, a word synonymous with a "standard infringement" committed by a competitor following the market leaders, parasitizing on rights connected to a patent. However, this conception does not describe the whole spectrum of the act of infringement in a real life business setting. Discussing infringement as one single act is a narrow starting-point. Instead, the definition should begin with an examination of the possible infringers.

Infringement could be committed with intention or due to a lack of knowledge in the company, by the company. It could also be committed by any other company who is freeloading on the negative rights connected to the patent. These other companies are not only to be found among

²⁹⁰ Blaxill, M., & Eckardt, R. *The Invisible Edge* (2009), pp.81-83.

²⁹¹ Kline, D., & Rivette, K. *Rembrandts in the Attic* (2000), p.48.

²⁹² Interview with Head of Group IP, large Swedish manufacturing company.

²⁹³ Berman, B. *From Assets to Profits* (2009), p.6.

the competitors; they could also be for example customers, previous or current collaborators or actors in the same research field who is operating in other markets.

The relation between the infringer and the company is different in all the above situations; a difference which means that the goal of each specific litigation must be adapted to the situation. The potential value is not the same; the choices a company are offered differs with the relation, which means that the discussion and conclusions in the enforcement strategy will have different starting-points. Therefore, any strategy discussing how to relate to an infringement must primarily focus on the relation to the infringer. Who is infringing, and what value could be created, lost or at risk from the situation?

Several different aspects of infringement will be defined and discussed in order to give an accurate view of the act of infringement, in modern day business interactions. As a starting-point, the “infringement” concept is split into infringement committed by the company, deliberate or involuntary, and infringement by other actors.

7.2.1. Infringement by the company

7.2.1.1. *Deliberate infringement*

Infringement can be a calculated risk. If the reward is high enough and the risk of litigation low, it might seem a possible action. Some companies operate in areas where it is normally an accepted power balance between large corporations to borrow a bit of technology from each other. However, willful infringement means that the company must be prepared for battle; it needs to keep a close eye on the patents where other infringes on the company, to be able to keep the power balance in a possible future negotiation or settlement. In order to employ such a defense strategy, the company needs control of what rights others have and what the company does. It also needs control of what rights the company has and what others do.

Some companies have patent portfolios large enough to be able to hold a strong negotiation position against almost any other large corporation.²⁹⁴ Companies with this approach can be more or less aggressive in using their rights. Nevertheless, if they are attacked through an infringement suit, they are able to defend.

Deliberate infringement could be extremely costly to a company in some jurisdictions, for example in the U.S, where punitive damages could be awarded. U.S also allows for extensive discovery, which means that a willful infringement could be proved if there is any evidence of the risk awareness. The infringement would be examined by several factors, as clarified in case law;²⁹⁵ such as whether the scope of the patent was examined, if there was a potential reason to harm the patentee and the duration of the infringement.

There are companies who develop their entire business models based on the behavior of willful infringement. They look for patents being infringed, in many cases patents held by small companies or patents not being utilized by the patentee, then either buying them or offering services to litigate the patent for smaller patentees. These companies – often defined as non-producing entities (NPEs) – behave in different manners in regards to the enforcement. Some of them are not willing to settle, other might be willing to offer a license if the compensation is

²⁹⁴ Blaxill, M., & Eckardt, R. *The Invisible Edge* (2009), p.108.

²⁹⁵ *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v Dana Corp.*, 72 USPQ2d 1560 (Fed Cir 2004).

large enough. The similarity between them is that they are extremely aggressive in the use of patents. They are aware of how the patent system works and what value it offers; able to seize opportunities once they find them.

7.2.1.2. Involuntary infringement

Infringement can be committed without the company being aware of the act; in some cases, because companies do not recognize where they are at risk of infringing, in other, because they err in implementing the right processes for surveillance. To step out of the risk zone, or at least to be able to prevent this type of infringement, is a matter of monitoring the activities of the company as well as the market surrounding it. If the company has no such functions, it is in a bad situation; the infringement is made with no awareness of risks, no preparations for defense or goal of supporting business. Should the patentee become aware of the act, the risk of losing profit or paying damages is large.

Products of today are often complex, as they are composed of multiple different components. An effect of is that the manufacturing companies need to monitor all these components, to make sure that the final product does not contain any infringing parts.

When components from an external contractor are used, there is a risk of infringement. Attention must also be paid when the company is supplying a component to another company. Legislation differs somewhat in different jurisdictions (Section 1 of the thesis), but a company could usually be held liable for induced or contributory infringement. The company should therefore keep an eye open to what use the supplied components will be served, in order not to supply it for use in products which could be infringing.

In regards to spare parts, the company is allowed to repair and do service on machines which they own. However, the extent of the concept reparation might differ between jurisdictions. It needs be investigated where the boundaries within each concerned jurisdiction are, beforehand. The company might otherwise be at risk of infringing on someone which they might be a customer of or have other collaborations with; something which could have a very negative effect on business.

In cases where technology is licensed in and used in a product it opens up a risk of committing direct infringement. Both the licensor and the licensee commit direct patent infringement if the patent right lies with someone else. There is a risk that the licensee could be sued and trapped with all the costs from processing, if he is not willing to risk more costs and damage to business from starting a process on compensation against the licensor. Contractual provisions, shifting liability and costs related to patent infringement, can be implemented in the license agreement.²⁹⁶ However, there is still a risk that these conditions could be difficult to enforce, if the licensor is a smaller actor with scarce resources.

Involuntary infringement can be caused through a number of different activities. Not even the fact that the product is developed within the company, or in collaboration, excludes a possible infringement on someone else's patent rights. When an invention is made or a product developed, there need to be a process to keep track of that development. Involved actors, for example the employees and collaborators should be documented. Without this documentation,

²⁹⁶ NIR 1972 p.506.

it will be difficult to manage the IP. Management of intellectual assets is the first pro-active step towards an effective management of infringement.

7.2.2. Infringement by other companies

7.2.2.1. *Infringement by competitors*

This is the case most people would recognize as a patent infringement; competitors copying technology in order to win market shares and gain value. As long as they are not caught, it is a profitable strategy. They spend no resources on development, yet reap the fruits of someone else's work. Smaller companies, especially start-ups, have a hard time defending themselves against this type of infringement. In many cases they might not have the necessary money or knowledge to fight the infringement. Their business model might be built around very few patents, which means that they are eager to protect these if they are able. Eventually, many start-ups with valuable patents are simply acquired by larger corporations.

Between large companies, there is often a power-balance of using a little bit of each others patent rights, one reason being the large amount of components in many products. However, this does not mean that these companies are not ready to defend. When a company is aware of its own actions and others actions, as well as of the existing rights, it is able to defend against an infringement accusation through negotiation of licenses. Problems might arise especially when the infringed patent is no longer just one of many components but instead a very valuable part, for example a competitive edge in a product, a technology which becomes a standard in certain products or a technology which is valuable in many different application areas.

7.2.2.2. *Infringement by customers*

The difference between a customer and a competitor can in some situations be small. Nevertheless, the infringement by a competitor is at times set in a somewhat different context; the competitor is in most cases aware of the action. The infringement by a customer can be more complicated. The customer might be under the impression that he actually has a right to use the patent in a certain manner, a right which he believes to stem from the purchase or licensing of a product. The competitor might not know what he is allowed to do with a machine or product after he has bought it. Reparations are generally allowed, while improvements could constitute an infringement.

The customer might or might not be aware of the infringement, but the relation between the company and the customer is in any case complicated from a business aspect. It might seem difficult to the company to be aggressive in regards to enforcing rights against a large customer. A potential solution to consider is to litigate somewhere else in the value chain, or to bring an action for a contributory infringement.

7.2.2.3. *Infringement by actors in the same research area*

Infringement does not end with companies operating on the same market. Every time a company uses collaborative research or even a joint venture to develop new technologies or products, there is a risk for patent rights being infringed in the future. Both parties bring with them patent rights into the creation of new patent rights. The use and ownership of results from collaborations need to be well regulated, beforehand. Equally important is the regulation of the use of the technologies that each collaborator brings with him into the joint research effort.

A collaborator might want to use the patents or inventions stemming from the collaboration in other markets and application areas than the company; however, without regulations, this use

might also include licensing to other actors and bringing the technologies into other future collaborations. This means a risk of having the results of the development eventually spread to competitors; a situation which is worse than infringement, since the competitor would then be allowed to use the inventions.

The company needs to be aware of these possible future complications, in order to keep control of the assets and minimize the risk that the partnership turns the collaborators against each other, should they be under dissimilar impressions of what each company is allowed to use the results for.

7.2.2.4. *Infringement by actors in other research areas*

There is a possibility of infringement in research areas which are not actually related to the company's business. Such an infringement might be willful, but it could often be involuntary. This is a type of infringement that might never be discovered, nor by the infringer or the patentee.

It is hard to protect a company against these infringements, as they are difficult to find even through careful surveillance of relevant technology areas. The span of what to monitor would have to be extremely extensive. However, if the company find an infringement and is willing to license out technology, it could make value also from these infringements.

7.3. Pro-active approach

Every context behind every patent that needs to be enforced is different. Patents could be used to reach goals differing extensively; enforced in different types of relationships. Thus, it is not possible to make a litigation strategy framework that offers the answers to every single situation. What a litigation framework offers is simply the right questions. These questions will provide the companies with knowledge of what they need to know, to make choices that support their overall business objectives as well as their patent strategies and their business units.

A company with many patents but without a proper strategy for enforcement offers competitors to easily copy the patented property. Being pro-active and creating enforcement processes beforehand means that infringers could be battled or even discouraged from the infringement, instead looking for an easier target. A company will quickly lose value, should the market not be surveilled and the IP be protected. The importance of a pro-active engagement of the company behalf cannot be stressed enough.

A common truth is that what you look for, you will find. Patent infringements will not be found unless the company implements processes to look for them. Trademark infringers are by many companies seen as easier to approach than patent infringers. This seems to be generally due to three reasons; first, the evidence of trademark infringement are fairly visible and easy to find – an internet page is for example more accessible than obtaining a large machine with one small part possibly infringing on a patent; second, the evidence are often relatively clear, there is no need to have experts examining every part of a product; and third, in most countries there are possibilities to quickly enforce the protection through measures such as confiscating the

products.²⁹⁷ Companies tend to see a need and value not only in registering trademark rights, but also in taking an active approach to protect them; carefully monitoring the market. In regards to patents, one notable company approach is to conclude that there are no large problems with infringement, simply because they cannot see the infringements as easy as trademark infringements. Thus, the value of a pro-active approach towards patent litigation is not directly visible to the companies – not because it does not exist, but because they do not see it.

The importance of considering an enforcement strategy before reaching a litigation stage cannot be emphasized enough. Litigation can, if not correctly handled, be exactly that highly resource draining enforcement alternative which companies want to refrain from. The success of choosing to litigate is closely related to the preparations and clarity of what goals the company hopes to achieve.

A pro-active approach is not limited to the situation where the actual infringement is already on the doorstep. Preparations to manage patent infringements demand organized procedures for monitoring both the external environment and the internal management of rights. These procedures must be planned with the understanding that infringement can be committed by several different actors, not only by competitors, and also with the understanding that the acting of a company without strategy constantly risks to overstep boundaries and infringe unintentionally. The following section will discuss the management and monitoring of patent rights, in order to become prepared for infringement.

7.3.1. Necessary processes

First, the company needs an understanding of the concept of infringement as being wider than what people might first think. Second, it needs to create internal functions to manage the challenges represented by different business relations and actions, to be able to prevent the threat of patent infringement. The company also needs to be able to choose to enforce a patent once an infringement occurs. It should never be locked in to be passive due to a lack of functions. These functions should be planned with the focus to efficiently evaluate risks relating to the different infringement situations.

The functions relates to infringements made by the company, and to infringements made by other companies. The aim is to establish a long-term strategy, offering an advantage to the strategies of competitors.

7.3.2. Managing infringement by the company

The first of two important sets of processes, recommended for the company to construct, is processes managing how the company can discover whether the technology invented or implemented into their products infringes on any external rights.

There are information service companies, like Thomson Reuters, offering companies to subscribe to news within required technology areas. The news is presented as dormant profiles, showing what patent applications there are published at the time of the latest update. However, if new notifications are not managed at the company when future applications are published, the value of the service is lost. The company could also make broad searches in the main business area

²⁹⁷ Interview with Director of Group Brand, large Swedish manufacturing company.

that they are operating in; however, this is less cost efficient, generating a lot of unrelated information.²⁹⁸ A commonly used action is to conduct “freedom to operate” searches.²⁹⁹ These searches are often initiated by a business unit and fairly narrow in scope; they resemble a snapshot of the situation at that time. It should be noted that some companies generally do not perform this type of searches. Since they have not encountered any infringement there often exists fractions in these companies that would argue it not to be necessary. As long as a company has not encountered a negative outcome of litigation or a serious threat of litigation it is hard to prove these voices wrong.

A short-coming of these processes is that they are very short in time span. Changes in the environment surrounding the products are not followed over time. Even if the company manages to avoid an infringement at that time, there is a risk that the situation changes, rendering previous searches useless.

When a company creates technologies, especially key technologies, for their products, one of the most basic processes is the most critical: the filing for inventions.³⁰⁰ This establishes the foundation for future management of infringement. The strength of the patentee in an infringement dispute is based partly on the width of the patent claims, as they have been granted.³⁰¹ If there are errors in the prior art searches, the claims might be weak. If the company holds a patent of great importance, it would not be good to business to find that the competitive edge could be overturned in an invalidity procedure. The patent is the base in any infringement case. If the claims are weak, the company is in a weak position in a negotiation situation.

As a general protection against litigation, there are possibilities to sign patent infringement insurances. However, this type of insurance could have a negative impact on a following infringement procedure. It could be argued that such insurance implies that the licensee has been aware of a risk of infringement. The cost of the insurance is large, and the limitations of what it should cover might be difficult to set.

7.3.3. Monitoring the market for infringements by others

As been discussed, the relation between the infringer and the company is different in every infringement situation. The possibilities to monitor and discover infringements will differ depending on what market and in what research field the infringement is taking place, in relation to the main business area of the company. The discussion that follows will therefore not list all necessary considerations or go into detailed circumstances in regards to these relationships, as they are contextual, but rather discuss the considerations for the company when constructing its own processes.

Large manufacturing companies, interviewed for the thesis, agree that infringement occurs. However, most of them share a vague picture of what the situation looks like, and does not consider the lack of surveillance to be alarming. In general, it could be claimed that large manufacturing companies in Sweden have a very limited approach towards actively searching

²⁹⁸ Wilson, D. International Patent Litigation (2009, p.11.

²⁹⁹ Interview with IP Manager at a large Swedish manufacturing company.

³⁰⁰ Blaxill, M., & Eckardt, R. The Invisible Edge (2009), p. 142.

³⁰¹ Blaxill, M., & Eckardt, R. The Invisible Edge (2009), p. 118.

for infringements. Infringements are often communicated through retailers or customers. In some cases, even the lawyers discover infringements and notify the companies.³⁰²

The companies have some idea of there being a few infringements committed, but usually they have not implemented a structure to look for them or to battle the infringers. Thus, due to a lack of clear functions and communication the matter is often disregarded or left unattended. This creates a catch 22. As there is no clear picture of the extent of the problem, there are no resources relocated to the defense of patents. That is, until a large threat of a law suit is already at the doorstep; a scenario where the company has to spend a lot of resources to save what they can. There is often more to gain from defending an already existing market than from creating a new.³⁰³

Since the above mentioned companies do not relocate any resources to develop the defense and enforcement of patents, there is no active search for infringements. This solution might seem to work, but it builds on a situation where the company slowly bleeds value. There are substantial losses both in market shares, profits and reputation; however, as long as the infringements are not visible and identified as wounds, none of the executives or employees at the patent departments or business units can be blamed for not managing them correctly.

Therefore, the company should create processes to make sure that they have a good overview of the infringement situation in regards to their products. This overview will serve as a foundation to ensure allocation of resources towards the defense of that segment. Once executives see important effects, for example maximizing competitors' time to market, there will be a better chance to motivate allocation of funds to protection of patents.

In a long-term aspect, the company should try to implement processes for evaluating which type of infringements that they will enforce patents against. This will require a more structured approach with more resources and personnel. The use of litigation is as mentioned earlier to be seen as a last resort; it should be used only when considered necessary and it should assist the company in obtaining its commercial goals. In detail, these processes can be created for most issues related to litigation, such as jurisdictional importance, evidence gathering, etc.

In regards to all relationships, the basis for the strategy once an infringement is suspected is the same. First to focus on clarifying the situation; the company must be able to efficiently assess what actors that are involved and what the relationship with these actors looks like. A clear understanding of the actors involved, the ownership of the rights and the strength of these rights will enable the company to form a strategy prior to a patent infringement suit.

Some large companies operate in areas where there traditionally has been no large threat of litigation amongst competitors. However, some business decisions will demand adaptation to a new approach to litigation. When a company is expanding into new markets, there is always a risk of entering into an area where there is an aggressive culture of patent enforcement, thus, where the risk of litigation becomes higher. Companies must be prepared to take a battle; avoiding problematic fields would not be a solution.

³⁰² Interview with Partner at a large Swedish law firm.

³⁰³ Interview with IP Manager of large Swedish manufacturing company.

7.4. Internal structure

A patent litigation strategy is useful when it supports both the company and every business unit. In order to locate its resources efficiently, the company needs to be steered with the understanding that most business executives have not worked with patents, and most litigators are limited in their knowledge about business operations. There needs to be a structure implemented between the departments, to have a patent litigation strategy aligned with the business strategy of the whole company. Patent litigation demands understanding of the benefits and risks on the judicial arena on a detailed level, but it also demands understanding of the business objectives.

7.4.1. Costs

The costs of litigation are, at most companies, paid for by the department or business unit exposed to the infringement. It could be argued that the ones most affected by the infringement should pursue the matter, since they lose value due to the infringement. They are also the ones to profit the most from the results of a successful action to stop the infringement. The problem with this approach is that it results in most infringement situations being left unattended. In a single case and a short perspective, litigation becomes too expensive and uncertain for the unit. Most large manufacturing companies in Sweden utilize this approach, where the business units pay for the infringement costs, today.³⁰⁴

A different alternative would be to lift the costs of patent infringements to a centralized position in the parent company, instead of placing the costs on the subsidiaries in each individual case. Such an approach would facilitate a more effective protection of the company's patent portfolio. The challenge of sharing the costs in a central position is initially that the purpose of such an approach needs to be understood by all the different business units; especially the units that have seen no or limited problems with infringement in the past.

The allocation of the company's patents will affect how the infringement is recognized by the business units. Should the patents be owned by each business unit, they will have a strong incentive to protect their own patents and less interest to protect the patents owned and used by other units. If the patents are relocated from the subsidiaries and placed in the mother company, management of the costs might be easier to accept.

Since patent litigation cannot be pursued on a regular basis the considerations must be to select the cases of infringement where the company has the best chance of obtaining the most value. The value should be one the value that serves the company as a whole in the most efficient way. When cost are placed on the individual business units there is a risk that decisions regarding which infringements to pursue becomes short-sighted and less useful to strategy of the company. If the outcome of the litigation is not successful, it might position other business units as infringement targets. Infringers might realize that the company has a hard time defending their rights; the worst case scenario is that the effect of a poorly managed infringement is an increased amount of infringements.

Enforcement of patents is seen as a cost, by many companies. However, the potential cost of constructing and upholding a patent enforcement strategy need to be weighed against the

³⁰⁴ Interview with IPR Director, Head of Group IP and CEO of three Swedish manufacturing companies.

possible rewards when utilizing it.³⁰⁵ It should also be considered that companies eagerly spend millions on patent applications and fees of upholding the protection, while the benefits of owning that property as a negative right are not fully explored.

7.4.2. Responsibilities

One of the most critical and simplest factors when constructing an internal structure for management of patent litigation is to make sure that the work tasks and responsibilities are clear-cut and established within the organization. To fully utilize its negative rights, the company should actively and aggressively look for infringements from other actors both within and outside of their market. This action is rarely executed in Swedish manufacturing companies.³⁰⁶ The conception of infringement as a problem exists, but the active searching for infringers is usually lacking due to various factors as high costs, a lack of strategies and a common view of litigation as something to avoid. The in-flow of information on infringements comes through customers being exposed to counterfeited products, sales organizations or individual business units.

A first step to create an internal structure for management of infringements is to assign persons within the organization to the responsibilities of dealing with infringements. By establishing these responsibilities, the risk of infringements being neglected by staff further down the organization becomes less significant. In order to develop an efficient response to infringements the company must first get a clear picture of what type of infringements there are and where these are committed, to later be able to see the choices of litigation.

Common practice in Swedish manufacturing companies is often a poor or scattered structure of information management. The information on an infringement reaches a business unit manager; the extent of information and the time for the notice differs. The manager then passes the information on, seeks advice on the matter or disregards it. The decision to manage the infringement or neglect it is taken on an individual business unit level. It is questionable whether the business unit manager will be able to see what would serve the company as a whole, or whether he will make a decision that serves his unit.

There are also some manufacturing companies with a more organized approach. Procedures are implemented to have the information guided to the right places. This pro-active behavior is beneficial to the company; it enables the creation of a more efficient overview of the infringement situation and it allows for rapid management of an infringement.

The structure for managing these responsibilities can be organized in a number of ways. One method is to appoint either one person or a group of persons to be in charge, in addition to their ordinary tasks. A more advanced alternative is to create an Intellectual Asset Management (IAM) group. The IAM group would be suited to manage all aspects of the company's IP or assets. An advantage of bringing the different IPRs together is that they often can be used as different solutions to one problem. IPRs interact to protect the business of the company; thus, a common approach can ensure high efficiency when dealing with violations of the company's IPRs.

³⁰⁵ Wilson, D. *International Patent Litigation* (2009), p.16.

³⁰⁶ Interview with IPR Director, Head of Group IP and CEO of three Swedish manufacturing companies.

7.4.3. Positioning and information channels

A problem in large companies with many business units is that information often disappears before it reaches management. Several information channels are informal and unstructured. A lack of established information channels hinders the possibilities to form an accurate picture of the frequency of infringements, in relation to the market of the company.

Even if the decisions to pursue an infringement are placed at the Head of a business unit, there are benefits to gain from a collective understanding of what the infringement situation looks like within the company. Interviews show that infringement often is conceived as both a problem and a repeated action. However, in regards to the extent of the infringement, few companies have an organized approach for evaluating the situation.

When creating a function to manage patents or IPRs, the company should make sure that the function is placed on a central position, enabling services to all business units. The responsible individuals should be easy to contact and pass on information to, to all separate business unit managers. There are also benefits from establishing direct communication to the management team, since decisions regarding infringements are highly strategic questions. When managed at a high level, it ensures that the decisions will have an operational effect as large as possible. The status, power and position of IP groups are on the rise; it is often practice that the IP manager reports directly to the CEO.³⁰⁷

7.4.4. Organizational options

There are many different options for organizing the IP activities within a company.³⁰⁸ The main question to be discussed here is whether to keep a gathered approach to all the IP of the company or to approach the rights separately.

Approaching the IP separately seems to be the dominant organizational structure used within the companies interviewed for this thesis. Nevertheless, there are exceptions where holding companies or the parental company manage all the company's IP.³⁰⁹

The decision to separate the management and ownership of IP on different business units often has its foundation in a traditional separation of patents, trademarks and other IP. Trademark related topics are often situated as a staff function under marketing units and legal departments while patents is managed by patent attorneys skilled in engineering, either individually or under an R&D department. The main focus of a trademark holder in an infringement situation is to put an end to the infringement. Thus, some companies have made an active choice to put the task of trademark monitoring and enforcement directly on their legal departments³¹⁰ or in close connection to these, as they see no complexity of an infringement situation.

A patent group could be focused on finding business opportunities. It could also be focused only on supporting the inventions and the patents protecting them. The focus of the group depends on the patent strategy and business models of the company as a whole. As has been mentioned,

³⁰⁷ Granstrand, O. The Economics and Management of Intellectual Property (1999), p. 262.

³⁰⁸ Granstrand, O. The Economics and Management of Intellectual Property (1999), p. 261.

³⁰⁹ Interview with CEO of holding company, subsidiary to manufacturing company, and with Vice President of Patent Strategies at a large Swedish telecom company.

³¹⁰ Interview with Vice President of Patent Strategies at a large Swedish telecom company.

patents could be used for different purposes; something which demands interaction between executives, legal and patent departments. Some companies are active within licensing out technology; one practice proven successful is to keep a patent group working with the granting and maintenance of patents, while there is another, business focused, group scouting the patents for licensing opportunities.³¹¹

However, this division between the different IPRs is often characterized by a lack of understanding of the IP as common means to work towards a joint goal for the business. The different business units, patent and legal groups will in some ways compete for the same means to finance their activities. Their separate approach to and use of the IP could produce too much confidence in that trademark or patent enforcement is the most efficient way to assist the company. This confidence points out that the separation of the IPRs within the company can create internal resistance, which might eventually hinder efficient protection of the company's business plan.

There could be positive effects from allowing the different IP in the company to be closely integrated. A gathered approach to IP, developed through an Intellectual Asset Management (IAM) group, could be a profitable option. As discussed, the different IPRs are complementary and should be seen in a context of assisting and protecting the company in reaching its business goals. In order to gain the most value from the different IPRs, a high level of integration and communication could result in more efficient management of an infringement situation. Once a problem occurs, the company can act with the full range of countermeasures. If a trademark or patent department act on its own, it will find a solution only out of its own means to solve the situation.

The downsides of integrated IPRs would primarily be economic; traditionally IP matters have not generated a great deal of resources or attention in regards to organization.³¹² The choice of a gathered approach to the company's IP allows for the different areas of IP to assist each other, and makes sure that information of the use of each IP becomes clear to the involved staff. A gathered IP approach might facilitate better communication within the IAM group, enabling it to see a larger picture, integrate needed experts quickly into the procedure, thus ensuring a rapid and efficient response.

7.4.5. Company status

In regards to recovering damages from infringements, large international companies have to pay attention to where the ownership of the property is located. The possibility to claim compensation due to lost profits is generally more generous than claims for a reasonable royalty. In order for such a claim to be successful, the patentee must be able to show the court that he has suffered damage. However, it is not uncommon for one part of a corporation to be the patentee and another to be responsible for exploiting the invention.³¹³ According to U.S case law, a subsidiary's lost profit does not necessarily translate into lost profits of the patentee.³¹⁴ Placing the ownership and organization of IP in a separate holding company will allow for a wide

³¹¹ Interview with Vice President of Patent Strategies at a large Swedish telecom company.

³¹² Granstrand, O. *The Economics and Management of Intellectual Property* (1999), p. 261.

³¹³ Wilson, D. *International Patent Litigation* (2009), p.17.

³¹⁴ PatentLyo. *Subsidiary's Lost Profits Do Not Translate to Lost Profit Damages for Parent Patent Holder*, <http://www.patentlyo.com/patent/2008/06/subsidiarys-los.html>

range of benefits. These could be for example in regards to management or taxes, or other reasons. In the U.S Poly-America case,³¹⁵ the court set limitations to these benefits implying that companies must carry the benefits with the burdens. The decision established that a licensee generally is not allowed to claim damages, unless he has an exclusive license from the patentee. The understanding of these aspects and the need for a company to keep clear and incorporated processes for managing patent rights is necessary to ensure that a higher amount of damages could be claimed in a future dispute. A license being exclusive does not mean that only one license is granted. It means that the licensor agrees not to grant other licenses with the same rights within the same scope or the same field of use. An exclusive license might refer to for example a geographical area or the production of a certain product.

The transfer of all IP to a separate company, or to the parental company, has several benefits. Gathering all IP could create advantages in negotiations in relation to licensing and cross-licensing. It also facilitates a long-term relation and strategy in regards to the IP; more than ownership by separate business units would. The focus on IP as means to generate value will be more visible, since the Holding company is expected to have a positive turnover. The IP portfolio often holds a greater value than anticipated.

7.5. Strategic possibilities

There are some basic questions a company must ask itself, in regards to patent enforcement; where should one litigate, against whom, for what reasons, and how should it be executed? It becomes a matter of choosing the right jurisdiction, the most profitable opponent, the right strategic business reason to enforce and the best procedure to do it. In all these aspects, business as well as legal reasoning needs to be understood.

7.5.1. Choice of jurisdiction

The importance of choosing the “right” jurisdiction for an infringement trial should not be underestimated. An example is to be taken in a case where the Israeli company Epilady held a patent which was being infringed.³¹⁶ The infringement dispute was litigated in twelve courts in different jurisdictions. These processes ended with different outcomes, thus exposing the uncertainty that lies within the current system of territorial litigation procedures. With the Epilady case as an example, Germany found the act to be infringement while courts in Great Britain did not. Choosing the right jurisdiction to litigate in, in cases where the infringement action could be brought in several countries, could be of vital importance.

Another effect of the above mentioned uncertainty is that winning one litigation procedure might not be enough to discourage other infringers to have them ceasing the infringement or to pay for a license. Normally, the patent has to be litigated in more countries. Decisions from some courts – in Europe for example Germany and Great Britain – are more valuable than others.³¹⁷ Germany offers the largest European market; should an act be deemed infringement

³¹⁵ Poly-America, L.P. v. GSE Lining Technology, Inc., 383 F.3d 1303, 1310-12 (Fed. Cir. 2004).

³¹⁶ Improver Corporation v. Remington Consumer Products Ltd.

³¹⁷ Interview with Partner of a large Swedish law firm.

and thus hindered, it is likely to be of great value to the enforcement against infringers in other jurisdictions.³¹⁸

Cost, speed, possibilities to gather evidence and predictability are factors to take into consideration when deciding where to litigate.³¹⁹ If parties can reach a quick final decision, this is often the most profitable alternative from a business aspect. A Swedish process is one of the most time-consuming in Europe, in regards to obtaining a final decision.³²⁰ An interim injunction could be given fairly quick and easy; however, the Swedish market is small to many global companies – a decision from the jurisdiction is not very important in regards to business.³²¹ Germany offers specialized patent courts, giving the benefit of quickly concluding the dispute. A trial could be realized within one year and lasting less than one day, with one more year for appeal.³²² Jurisdictions such as Italy, France and Belgium have proved to be much slower, thus benefiting an alleged infringer who could use the tediousness as a defense strategy to prolong the procedure.

The costs of infringement litigation are generally high; costs are for example expected to be about 200.000 Euros in Germany, in first instance.³²³ Potential recovery of the costs is a fairly harmonized matter within EU, under the IP Enforcement Directive (IPRED). A successful party could recover reasonable and proportionate legal expenses. Nevertheless, the definition of reasonable is left to be determined by each court. If a case is complex, as patent disputes often are, the pre-trial costs alone could amount to several hundred thousand Euros. In China, there could be difficulties to regain the costs of litigation; hence one of the greatest concerns in this jurisdiction is the costs of a process.³²⁴

The patentee needs to make a decision as to what result he wants out of the litigation procedure. In regards to damages, the jurisdictional systems differ extensively. If the infringement occurs in a key area of the business, the overall goal could be to quickly end the infringement. On the other hand, if the infringement has caused a great loss of value from lost sales or from price erosion, it might be desirable not only to end the infringement but also to be compensated. The Chinese tradition has been to grant low amounts of restitution unless the patentee can show strong evidence to the gain of the infringer, while the US system allows for large punitive damages and European jurisdictions generally grants a reasonable level of compensation but no punitive damages. US also allows for extensive discovery, meaning that the parties are allowed to search every corner of the opponent's business to gather evidence.³²⁵ If the infringement occurs in a jurisdiction where the company does not market their products, there might be more benefit to aiming for settling with the infringer and offer him a license. The result of litigation could in fact be an opportunity for business expansion.³²⁶

³¹⁸ Interview with Partner of an IP focused, international law firm and with Head of Group IP at a large Swedish manufacturing company.

³¹⁹ Interview with Partner of a large Swedish law firm and with CEO of a holding company, subsidiary to manufacturing company.

³²⁰ Kostnadseffektivitet vid patentinfrång, Patent Eye, 2007:7, p.17.

³²¹ Interview with Head of Group IP at a large Swedish manufacturing company.

³²² Jolly, A., & Philpott, J. The Handbook of European IP Management (2009), ch.13, p.495.

³²³ Jolly, A., & Philpott, J. The Handbook of European IP Management (2009), p.496.

³²⁴ Interview with Attorney of a large Chinese law firm.

³²⁵ Interview with Managing Partner of a large U.S law firm, focused on IP.

³²⁶ Shearer, R. Creating New Wealth from IP Assets (2007), Chapter "Value-added litigation".

7.5.2. Choice of opponent

Choosing the defendant best suited to litigate against can be a real challenge. The law of the jurisdiction will determine who is infringing. In the case of direct infringement, this question is not of much concern. However, the criteria's of indirect infringement differ between jurisdictions. An example could be taken in the fact that Germany sets out clear boundaries for indirect infringement in the Patent Act, while it is rather unpredictable what the outcome of an indirect infringement claim would be in China.

The patentee should look to find the full value chain: the sellers, the manufacturers and the importers. If the evidence against the infringers is clear in regards to all of them and the chances of winning a procedure are reasonably considered the same, the question is what the company wants to win from the infringement. Where are there most benefits to gain? In situations of claiming damages, the best target could simply be the infringer with the deepest pocket.³²⁷ In other situations the manufacturer could be the best target, as a decision on infringement would end the supply of infringing products.³²⁸ This is of course tied to the matter of choosing the right jurisdiction; where would a procedure hurt opponents the most?

Another question to consider is the relationship between the infringer and the company, and what risks and benefits litigation would cause. Customers might have to be treated differently in comparison to competitors. Competitors might have to be treated differently in comparison to infringers in areas where the company does not operate, geographically or in regards to research. These are *business decisions*; a reason as to why the litigation strategy must be linked to the business strategy.

7.5.3. Choice of response

Once the opponent and the jurisdiction to litigate in are chosen, the company must respond to the infringement. Again, the first question is what result the company wants. In some cases, where the infringement is obvious and the company suffers large damages from the infringement, the claimant initiate response could be to get an interim injunction. If there is a risk that evidence could be destroyed, he might want a pre-action search order. There are several measures to take in regards to the infringement (as been discussed in Section 1 of the thesis), for example border confiscation of infringing products if the claimant knows that the products will be brought into the country. However, in most jurisdictions, China exempted, a warning letter is a common first response. The choice to send a warning letter is often seen as "decent" and obvious. In Sweden it is demanded by law that lawyers give the opponent time to respond to the claims before initiating a court process. A sent warning letter could in a later stage be used to get a decision on injunction from the court, if the infringer were asked to cease the infringement and did not respond or quit the infringing action.

Sending a warning letter can have different objectives. Usually, the company wants the infringer to cease using the patented product or process, but the warning letter could also be used to force the infringer to accept a license deal to be allowed to continue using the patent. The objectives of sending the warning letter must be evaluated beforehand, in order to find the most suitable alternative. This decision will not only depend on the business strategy of the

³²⁷ Interview with Partner of a large Swedish law firm.

³²⁸ Interview with Partner of a large Swedish law firm.

company in regards to how to make margins and what to license out, but be a result of the relationship between the company and the infringer.

It should be noted that a warning letter is not to be sent out as a general response to any suspicion of infringement. The possibilities and risks of that specific case of infringement must be examined, before making such a decision. If the warning letter does not cause a response from the opponent, it is not the time to write a second warning letter and change the objectives. Nor is it a good idea to let competitors know that the company does not enforce their patents, even when it is aware of an infringement. When sending a letter, the company should be prepared to go the full distance, making sure that the warning letter sent is part of a larger strategy to ensure and support the business plan of the company.

Finally, the company could benefit from sending the warning letter through an external law rather than from the company itself, thus implying that the company has already gone quite far in initiating a court action. It might be enough for the infringer to open up for a dialogue.³²⁹

7.5.4. Choice of proceeding

A patent can, in most countries, be enforced through several procedures; criminal, civil and arbitration. Some countries, like China, also offer an additional administrative enforcement procedure. Other, like US, does not offer criminal procedure. Criminal procedure is often used in cases of trademark infringement,³³⁰ but rarely used in patent infringement cases. One reason is that parties often want to settle the matter during the procedure; another that in most jurisdictions, prosecution must not only be reported by the damaged party but also be required by the public interest.

Arbitration offers a time-saving and confidential procedure, with the possibility to choose experts and applicable law to solve the disputes. However, arbitration is not much used in patent infringement cases.³³¹ The procedure is quick, as there is only one instance. This is at the same time a benefit and a reason as to why companies hesitate to use arbitration, as there is no possibility to appeal a verdict.³³² In most countries, an arbitral decision on invalidity cannot be enforced. The effects of the procedure is only between the parties, and there could be uncertainty regarding what claims that arises out of the agreement and should be dealt with under the arbitration clause.³³³

Nevertheless, arbitration is an interesting alternative of procedure, currently discussed from several aspects;³³⁴ for example the possibilities to have decisions on the validity of a patent and the verdict being enforced not only between the parties.

³²⁹ Interview with Partner of an IP focused, international law firm.

³³⁰ Interview with Director of Group Brand, large Swedish manufacturing company.

³³¹ Interview with European Patent Attorney and with Managing Partner of a large U.S law firm, focused on IP.

³³² Interview with Managing Partner of a large U.S law firm, focused on IP.

³³³ Interview with Partner of a large, Swedish law firm.

³³⁴ Interview with Partner of an IP focused, international law firm.

In short, the most used enforcement tool in patent infringement is the civil procedure. There are some differences between the jurisdictions in the exact procedure (Section 1 of the thesis), but remedies are fairly standardized through the TRIPS agreement. A problem and at the same time an opportunity to the aware party, is that the time and the cost of the procedure differs largely between jurisdictions. The enforcement of a verdict is territorial, and it is not possible to predict whether the extent of the patent claims will be interpreted in the same way in different jurisdictions. Thus, using the civil procedure to enforce a patent demands a clear strategy and awareness of where to enforce the patent to have the most positive effect on business.

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