

## ***German Parliament Adopts Amended Patent Law Bill***

On 28 May 2009 the German federal parliament (*Bundestag*) adopted the government's draft bill to simplify and modernise German patent law. The bill is expected to come into force on 1 October or November 2009, in the second month after its promulgation. Contrary to what the bill's title seems to imply, it leaves substantive patent law largely unaffected and primarily reforms procedural issues in order to speed up patent revocation proceedings and simplify the rules governing employee inventions.

### **1. Reform of the patent revocation proceeding**

#### **A. Background and reasons**

German patent jurisdiction takes a prominent position within Europe. The specialised patent litigation divisions of the German district courts (particularly in Dusseldorf, Mannheim and Munich) deal with more than 1,000 patent disputes each year. Internationally operating enterprises often conduct pilot proceedings in Germany to use their outcome as an indicator for the legal situation of equivalent patents in other European countries.

Patent revocation proceedings are highly significant in this context. Due to Germany's split court system, the Federal Patent Court has exclusive jurisdiction to decide on the (in)validity of a patent. A defendant seeking to plead invalidity in an infringement suit before the patent litigation divisions of the district courts has to file a separate action against the patentee to the Federal Patent Court. Thus, the parties seek to have the patent's validity or invalidity clarified quickly in the revocation suit to prevent interim injunctions by the infringement court, based on a patent which might later turn out to be invalid.

The current structure of revocation proceedings prevents their quick progress, thus compromising the effectiveness of the German patent litigation system as a whole.

The Patent Act defines separate procedural rules for revocation suits in order to account for certain characteristics specific to the patent revocation proceeding – the principle of official investigations and the close connection of legal and factual issues. Thus, both the first and the appellate instance before the Federal Court of Justice are two full fact-finding instances in which the parties are at liberty to redefine the subject matter in dispute by filing new motions and submitting new facts, at virtually any time.

Due to the rising number of cases, the complicated structure of the proceeding over the past years has led to an excessive workload to be handled by the X. Division of the Federal Court of Justice, resulting in an unacceptable duration of

the appellate stage. The number of appeals lodged to the Federal Court of Justice has nearly doubled since the mid-1970s, with 67 appellate proceedings in 2008 alone. Considering that about 40 proceedings are completed per year, there is a backlog of nearly 200 appellate lawsuits, which is the reason for the current average duration of appellate proceedings of 4-5 years. As a result, the average duration of revocation proceedings in Germany is about 7 years.

As a first remedy, a second revocation division (V. Division) was established at the Federal Patent Court in 2009. Further, the X. Division of the Federal Court of Justice has been temporarily split into two divisions. Although this has not increased the manpower, the number of proceedings which can be handled has risen significantly.

At the same time the X. Division of the Federal Court of Justice also called for a reform of the revocation proceeding, which has now been enacted.

## **B. Scope of the reform**

In order to accelerate the patent revocation proceeding, the relevant fact-finding shall be concentrated with the Federal Patent Court while the appellate stage before the Federal Court of Justice, similar to the appellate proceeding under the German Code of Civil Procedure, shall serve the purpose of legal control. However, the reform shall not restrict the factual basis of the decision. The reduction of the fact-finding process in the second instance shall be compensated by a more structured and transparent fact-finding procedure in the first instance.

The most important change in the first-instance proceeding is the introduction of a qualified notification by the Federal Patent Court. Based on the parties' submissions gathered up to that point, the parties shall be provided with a preliminary assessment of the factual and legal situation by the Federal Patent Court as early as possible, giving them an opportunity for additional submissions. For this purpose the Federal Patent Court can fix a deadline for the parties, which is extendable only for legitimate reasons. Arguments filed by the parties after the deadline can be rejected as late.

The purpose of the assessment is to compensate for the loss of a full second fact-finding instance. Being provided with the court's evaluation at an early stage, the parties are given the possibility to react already in the first instance. With the current procedural structure, this possibility often became available only with the appeal submissions.

In the appellate instance, the scope of the examination will be restricted considerably. An appeal can only rely upon the argument that the patent court's decision is based on a violation of federal law or that the underlying facts justify a different decision.

New factual arguments are admitted only under strict conditions. The corresponding appeal provisions of the Code of Civil Procedure on the preclusion of late, rejected and new factual arguments are applicable by analogy.

Further, both parties' possibility to react to the first-instance decision with amended motions will be restricted substantially. An amendment of the plaintiff's action as well as a defence with an amended version of the patent will only be admitted in the appellate instance if (1) the adverse party approves or the Federal Court of Justice considers the amendment relevant, and if (2) the amended motions can be based upon the restricted factual basis to be used by the Federal Court of Justice in the trial and its decision on the appeal.

In particular, the reduction of the patentee's possibilities to defend his patent only in a limited version in response to the first-instance judgment was criticised during the legislative procedure. Critics were concerned that the provision would force the patentee to allow for all potential outcomes of the lawsuit already in the first instance, and to defend himself in all conceivable, even the most far-fetched, directions. This in turn would lead to a substantial additional workload and thus delays of the proceedings before the Federal Patent Court. It remains to be seen whether the concerns are justified.

The aim of the reform – to streamline and speed up the revocation proceeding – is highly appreciated. The amendments provide the courts with the necessary tools to pursue that goal. As the reform was initiated by the X. Division of the Federal Court of Justice, it is safe to assume that the Federal Court of Justice will strictly apply the newly available measures and achieve the goal of reducing the duration of the appeal stage in revocation suits by half to two years, within the foreseeable future. However, the reform is accompanied by an additional workload on the Federal Patent Court; the only way to prevent a prolongation of the first-instance proceeding is to provide the Federal Patent Court with the human resources necessary to meet the new requirements.

## **2. Reform of the Employee Inventions Act**

As a second key aspect of the reform bill, the Employee Inventions Act shall be modernised. 80 % of all patent applications are based on employee inventions.

Under the current Employee Inventions Act, the employer's claiming of rights to employee inventions is complicated by formalities and time limits. Especially among small and medium-sized businesses with no perfectly organised reporting and deadline monitoring system, this often caused mistakes which resulted in the loss of valuable intellectual property rights. The reason for the reform was the Federal Court of Justice's "Adhesive Label" ruling (2006) finding that a patent application by an employer based on an employee invention replaces the formal reporting of the invention by the employee but not its formally appropriate and timely claiming by the employer. Thus, any patent application by the employer involved the risk of losing rights.

The reform solves the problem by supplementing the provisions governing the claiming of rights by a fiction reversing the "rule-exemption" relationship. The invention no longer becomes non-proprietary for lack of explicit claiming within 4 months after its reporting but, vice versa, the invention is deemed to have

been claimed if the employer does not explicitly release the invention within 4 months; or, in a nutshell: If the employer does not do anything he is entitled to the invention.

This amendment ensures that the invention is assigned to the employer. The employee is sufficiently protected by his claim to an adequate remuneration, which arises when the rights to the invention are claimed.

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