

Injunctions in the UPC and the principle of proportionality

By Prof. Dr. Ansgar Ohly

I INTRODUCTION

The way towards a European patent judiciary is best characterised by the title of a Beatles song: it has been “a long and winding road”. But after many proposals, initiatives and setbacks the Unified Patent Court now finally seems to become reality. The tricky issue of whether the UK could still participate even after Brexit¹ has been solved – in a very unfortunate way, but it has been solved. The constitutional challenge in Germany has made a new implementation in the German Parliament necessary,² but the new implementing act reached the necessary two-third majority, and the German Federal Constitutional Court has recently refused to accept a constitutional complaint against the new implementation.³ The UPC Agreement (hereinafter UPCA) has now reached the stage of provisional application. Germany is acting as a gatekeeper and will deposit its ratification once the preparations have been finalised.⁴

The end of the “long and winding road”, however, will also mark the beginning of new challenges. While the European patent jurisdictions agree on many principles, they have different traditions in detail. The first instance divisions and the Court of Appeal will have to find their own answers to many questions of substantive patent law, but also to formal issues such as the form and style of judgments or the framing of injunctions.⁵ Given the relative homogeneity of patent law compared to general private law and given that national patent courts in Europe have long been in the habit of taking account of judgments from other European jurisdictions,⁶ there is hope that the UPC will settle these differences in the long run. But some legal uncertainty in the first years of the Court’s existence is also inevitable.

This article will look into one aspect which has been controversial in several jurisdictions: can patent courts deny applications for injunctive relief, even if infringement is established, when an injunction would result in disproportionate hardships for the infringer or for third persons? Until recently, national answers to this question differed widely.⁷ They ranged from the US approach, where the Supreme Court subjected injunctions to a flexible “four-factor test”, to the German approach, where injunctive relief was the automatic consequence of an infringement. In this article, I will argue that the UPC should steer a middle course. I will first try to show that there has been a trend towards convergence in the EU in recent years (II). Then I will look at the international and European framework and at the relevant UPC provisions which, in my view, establish that the UPC will have to

respect the principle of proportionality and refuse disproportionate injunctions, if only in exceptional cases (III). Even if the UPC will adopt this approach, it will still need to work out some details and decide, for example, if it can grant compensation in lieu of an injunction (IV). I will only discuss permanent injunctions, and I will, in particular, not enquire which effects the recent CJEU judgment in *Phoenix Contact v. Harting*⁸ might have on future UPC decisions on the grant of interim injunctions.

This article is dedicated to Marianne Levin, the Grande Dame of Nordic intellectual property law. With her vast knowledge, her clear policy convictions, her power and her esprit she has shaped the law and inspired generations of students and academics. Since she has always advocated an IP protection which is adequate, but neither maximal nor overly broad, she may not entirely disagree with my thoughts on proportionality. I wish her good health and energy, and I hope that our longstanding co-operation will continue for many years to come.

II FROM A CLASH OF CULTURES TOWARDS EUROPEAN CONVERGENCE

Traditionally and doctrinally, civil law and common law jurisdictions adopted diametrically opposite approaches to injunctive relief.

In Roman law, the *rei vindicatio* and the *actio negatoria* were the hallmarks of property.⁹ By virtue of the former, the owner could require an unlawful possessor to hand over the object, and by virtue of the latter, he or she could demand the cessation of any interference. Following this tradition, courts in civil law jurisdictions have traditionally granted injunctions as a matter of course, without exercising any discretion and without requiring intent or negligence on the part of the defendant.¹⁰ § 1004(1) of the German Civil Code, on which the provisions on injunctions in IP law were modelled, provides:

“If the property is impaired in a way other than by deprivation or withholding of possession, the owner may demand the removal of the impairment from the interferer. If further impairments are to be expected, the owner may sue for injunctive relief.”

In short: infringement + likelihood of further impairments = injunction. The duty not to infringe corresponds with the right to prohibit. An injunction is not a remedy which the court can grant if and when is appropriate, but the plaintiff has a legal right to an injunction in case of infringement.¹¹

In common law legal systems, by contrast, injunctive relief is an *equitable remedy*, whereas there is a *legal right* to damages. Hence the courts have discretion, and they will not normally grant an injunction if damages provide adequate compensation. In the US, patent law had gone its own separate way for a while, as under the approach of the Court of Appeals for the Federal Circuit injunctions had usually been granted in cases of patent infringement. But the Supreme Court overruled this practice in its famous judgment in *eBay v. MercExchange*. The Court decided that injunctions in patent law were also subject to the principles of equity. Hence, they did not issue as a matter of course. Rather, the infringement court had to weigh four factors and require the plaintiff to demonstrate:

“(1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”¹²

Since *eBay* it has become significantly more difficult for plaintiffs to obtain injunctions. In particular, nonpracticing entities (NPEs) find it difficult to apply for injunctions successfully.¹³

English law is also based on the dichotomy of common law and equity, injunctions are also equitable remedies, and the courts can grant damages in substitution of an injunction.¹⁴ In several recent judgments, English courts have confirmed that injunctive relief can be withheld if it would lead to disproportionate results.¹⁵ However, the courts do not conduct a four-factor analysis, but grant injunctions as a rule: “A general injunction to restrain future infringements is the normal remedy for the patentee.”¹⁶ The burden on the party seeking to show that an injunction would be disproportionate has been characterised as “a heavy one”, at least when no other countervailing rights are in play.¹⁷

German law has recently moved from its formerly radical approach towards the more moderate English position. The “quasi-automatic” grant of injunctions¹⁸ was increasingly criticised by some academic authors¹⁹ but defended by others.²⁰ Over time, some industries also became concerned about the excessive effects of injunctions, par-

¹ In favour: Ansgar Ohly & Rudolf Streinz, ‘Can the UK stay in the UPC system after Brexit?’, GRUR Int. 2017, 1 = [2017] JIPLP 245; against: Carlo Luigi Ubertazzi, ‘Brexit and the EU Patent’, GRUR Int. 2017, 301.

² The first implementing act was declared unconstitutional by the German Constitutional Court: BVerfG, 30 February 2020, 2 BvR 739/17, GRUR 2020, 506.

³ BVerfG, 13 July 2022, 2 BvR 2216/20 and 2217/20.

⁴ UPC, press release of 27 September 2021, <https://www.unified-patent-court.org/news/germany-ratifies-protocol-provisional-application> (last visited on 6 September 2022).

⁵ Whereas English courts generally order the defendants not to infringe the patent but allow defendants to apply for carve-outs concerning modifications, injunctions are usually adapted to the infringing embodiment in Germany. See, for England, *Illumina Inc v TDL Genetics Ltd*, [2019] EWHC 2405 (Pat) and Colin Birss et al. (eds.), *Terrell on the Law of Patents*, 19th ed, London: Sweet & Maxwell, 2022, para. 21-56, for Germany BGH, 10 May 2016, X ZR 114/13, GRUR 2016, 1031, para. 54 – *Wärmetauscher [Heat Exchanger]*.

⁶ On this “harmonization by persuasiveness” see Jan Brinkhof & Ansgar Ohly, ‘Towards a Unified Patent Court in Europe’, in: Ansgar Ohly and Justine Pila (eds.), *The Europeanization of Intellectual Property Law*, Oxford: Oxford University Press, 2013, pp. 199, 203-207; Robin Jacob, ‘The Relationship between European and National Courts in Intellectual Property Law’, *ibid.*, pp. 185, 188-192.

⁷ For an overview, see the country reports in Jorge L. Contreras and Martin Husovec

(eds.), *Injunctions in Patent Law*, Cambridge: Cambridge University Press, 2022.

⁸ CJEU, C-44/21, *Phoenix Contact v. Harting*, on which see the critical note by Hermann Deichfuß, ‘Nochmals: Die Prüfung des Rechtsbestands des Patents im einstweiligen Rechtsschutz’, GRUR 2022, 800, who, remarkably, recommends the German courts not to follow this judgment as it is based on a wrong understanding of German patent law.

⁹ See Frits Brandsma, ‘Actions in Roman and civil law for the protection of immovables’, in: Sonia Martin Santisteban and Peter Sparkes, *Protection of Immovables in European Legal Systems*, Cambridge: Cambridge University Press, 2015, pp. 9, 11, 19.

¹⁰ While German law is used as an example throughout this article, Dutch, French and Italian law largely follow the same approach, see the taxonomy by Jorge L Contreras and Martin Husovec, ‘Issuing and Tailoring Patent Injunctions – A Cross-Jurisdictional Comparison and Synthesis’, in *Injunctions in Patent Law* (*supra*, note 7), pp. 315-316.

¹¹ See Franz Hofmann, *Der Unterlassungsanspruch als Rechtsbehelf*, Tübingen: Mohr Siebeck, 2017, pp. 83-84.

¹² *eBay v. MercExchange*, 547 U.S. 388, 396 (2006).

¹³ Christopher B. Seaman, ‘Permanent Injunctions in Patent Litigation after Ebay: An Empirical Study’, 101 *Iowa Law Review* 1949, 1988 (2016); with further distinctions John R. Allison, Mark A. Lemley and David L. Schwartz, ‘How Often Do Non-Practicing Entities Win Patent Suits?’, 32 *Berkeley Technology Law Journal* 237, 267, 277-288 (2017).

¹⁴ Sec. 50 Senior Courts Act 1981, Lionel Bently and Richard Arnold, ‘United Kingdom’, in:

Injunctions in Patent Law (*supra*, note 7), pp. 261, 271.

¹⁵ *Ibid.*, at 272-275.

¹⁶ *Evalve v. Edwards Lifesciences*, [2020] EWHC 513 (Pat) at para. 73 per Birss J.

¹⁷ *HTC v. Nokia*, [2013] EWHC 3778 (Pat) at para. 32 per Arnold J.

¹⁸ As it was termed by Martin Stierle, ‘Der quasi-automatische Unterlassungsanspruch im deutschen Patentrecht’, GRUR 2019, 873.

¹⁹ See Stierle, *ibid.*, and Franz Hofmann, ‘Funktionswidriger Einsatz subjektiver Rechte’, GRUR 2020, 915; Ansgar Ohly, ‘“Patenttrolle” oder: Der patentrechtliche Unterlassungsanspruch unter Verhältnismäßigkeitsvorbehalt?’ GRUR Int. 2008, 787; Christian Osterrieth, ‘Technischer Fortschritt – eine Herausforderung für das Patentrecht?’, GRUR 2018, 985; Julia Schönbohm & Natalie Ackermann-Blome, ‘Products, Patents, Proportionality – How German Patent Law Responds to 21st Century Challenges’, GRUR Int. 2020, 578; Ralf Uhrich, ‘Entwaffnung der „Patenttrolle“?’, ZGE 1 (2009) 39.

²⁰ See the GRUR’s Position Paper on the Ministry of Justice’s Discussion Paper of 16 March 2020 and the Ministry’s Draft of 29 September 2020, available at www.grur.de (last visited on 6 September 2022), Uwe Fitzner and Michael Munsch, ‘Der patentrechtliche Unterlassungsanspruch – ein Teil einer Familie im deutschen Rechtssystem?’, Mitt. 2020, 250; Mary-Rose McGuire, ‘Stellungnahme zum 2. PatModG: Ergänzung des § 139 I PatG durch einen Verhältnismäßigkeitsvorbehalt?’, GRUR 2021, 175; Winfried Tilmann, ‘Zu einem Unverhältnismäßigkeitsverbot im Patentrecht’, Mitt. 2020, 245.



ve right. In this case the injured party is to be granted adequate monetary compensation. The claim for damages under para (2) shall remain unaffected.”

It remains to be seen to what extent this provision will be successfully invoked by defendants before German courts in practice. Also, an academic discussion has started about the doctrinal nature and the practical calculation of the compensation which the patent owner can claim according to § 139(1), forth sentence, if the claim is excluded.²³ But despite the limited experience with the new provision, it seems that English and German law have converged. It will have to be seen whether other continental European jurisdictions will follow this trend.

ticularly in the ICT sector, where products are complex and sometimes realise thousands of potentially patented inventions. In particular, the automobile and the telecommunications industry lobbied for a statutory exclusion of injunctions in the case of disproportionality. The German Federal Supreme Court reacted to this discussion in the *Heat Exchanger* case and considered it possible to grant a defendant a “use by” period if an immediate injunction would be grossly disproportionate.²¹ But the Court made it clear that disproportionality was an extreme exception. The case, in which Daimler was the defendant, concerned a heat exchange mechanism built into seats of convertible cars, which kept the neck warm when driving. The courts in the first two instances had found against infringement, and Daimler continued producing cars in which the mechanism was used. When the Supreme Court found infringement, based on the doctrine of equivalents, Daimler applied for permission to sell off the cars which had already been produced and for which the buyers were waiting. Given that the infringing component was very limited, that the cars were ready for delivery and that the first two instances had dismissed the infringement action, there would have been a strong case for granting a “use by” period, but the Supreme Court denied the application.²² The fact that the patent was about to expire and that Daimler had not shown any interest in negotiating a licence may have been important motives for this decision. So, for a while, in German law, the possibility of suspending injunctive relief existed in theory, but was never applied in practice.

Parliament reacted and modified the provision of the German Patent Act which allows the grant of injunctions in cases of infringement, by adding a disproportionality exclusion. § 139(1) Patent Act now provides:

“A person who uses a patented invention in contravention of sections 9 to 13 may be sued by the infringer for an injunction if there is a risk of repetition. The claim shall also exist if an infringement is threatened for the first time. The claim is excluded to the extent that it results, under the specific circumstances of the individual case and having regard of the principles of good faith, in disproportionate hardship to the infringer or third persons, which is not justified by the exclusi-

III THE LEGAL FRAMEWORK OF UPC DECISIONS ON INJUNCTIVE RELIEF

The UPC must apply EU law in its entirety.²⁴ It is bound by EU primary law and by EU regulations and directives, in particular the IP Enforcement Directive (IPRED),²⁵ which, in turn, must be interpreted in the light of the TRIPS Agreement. Remedies for IP infringement are governed by the “three sisters” of EU enforcement law,²⁶ which are set out in Article 3(2) IPRED: remedies must be effective, proportionate and dissuasive. According to Article 11(1) IPRED, which mirrors Article 44 TRIPS,²⁷ the courts may grant injunctions in cases of infringement. Article 12 IPRED adds that the courts may grant pecuniary compensation in lieu of an injunction if the infringer acted unintentionally and without negligence, if an injunction would cause disproportionate harm and if pecuniary compensation appears necessary. Many of the UPC provisions on remedies mirror the IPRED. Like Article 11(1) IPRED, Article 63 UPCA provides that the Court may grant an injunction against the infringer aimed at prohibiting the continuation of the infringement. Whereas initially Rule 118.2 also copied Article 12 IPRED, this reference was later deleted.

The UPC will have to decide, first, if applications for injunctive relief may be denied in cases of disproportionality and, second, whether the IPRED even prohibits the grant of injunctions in cases of disproportionality.

The wordings of Article 63 UPCA and of Article 11(1) IPRED differ from civil law provisions under which the patent owner has a right to an injunction. They express that the UPC has the power to grant injunctions, but not that it must do so in every single case. On the contrary, both provisions are reminiscent of the discretion enjoyed by common law judges.²⁸ This understanding is in line with the prevailing interpretation of Article 44 TRIPS, according to which a judicial discretion to grant injunctions is in conformity with TRIPS, at least as long as the practical exercise of this discretion does not generally undermine the effectiveness of IP enforcement.²⁹ What is more, Article 3(2) allows the EU courts to deny a remedy if it would be disproportionate. A possible objection might be derived from Article 12 IPRED, which allows the award of compensation in lieu of an injunction only in a very specific and, indeed, rare case, namely in the case of

an infringement which is neither intentional nor negligent. It could be argued *e contrario* that injunctions are mandatory in all other situations. Article 12 IPRED is a puzzling provision. It was cut and pasted from the German Copyright Act,³⁰ where, in the German tradition addressed above, it allowed an extremely limited and practically irrelevant exception from the plaintiff's right to an injunction. Interpreted in the light of the EU proportionality principle and in the light of EU fundamental rights, however, Article 12 IPRED is best seen as no more than an example of a case in which a court can withhold an injunction, not the only case in which it is entitled to do so.³¹ Also, Article 12 IPRED was not implemented in the UPC or in the Rules. Hence it was not meant to have a limiting effect by the drafters of the UPC.³²

Another question is whether Article 3(2) IPRED also requires the UPC to deny an injunction if it would lead to disproportionate results. It could be argued that the IPRED only sets a minimum standard, and that it hence allows a disproportionality exception, but does not make it mandatory. The German Supreme Court in *Heat Exchanger* seemed to lean towards this position. The opposite view, however, was taken by Arnold J, as he then was, in *HTC v. Nokia*:

*"I consider that Article 3(2) of the Enforcement Directive permits and requires the court to refuse to grant an injunction where it would be disproportionate to grant one even having regard to the requirements of efficacy and dissuasiveness."*³³

Indeed, the proportionality principle would largely be devoid of any effect if it only provided a minimum standard and not also a ceiling. The proportionality principle not only concerns the IP system in general, but must be observed in each individual case, as Recital 17 IPRED clarifies, and according to Recital 24 IPRED prohibitive

measures are only to be granted "depending on the particular case, and if justified by the circumstances". What is more, the proportionality principle must be interpreted in the light of fundamental rights and freedoms. While the CJEU has never stated explicitly that Article 3(2) IPRED also sets a maximum standard, it held in a different context, namely with respect to the imposition of monitoring obligations on internet service providers:

*"a general monitoring obligation would be incompatible with Article 3 of Directive 2004/48, which states that the measures referred to by the directive must be fair and proportionate and must not be excessively costly."*³⁴

This consideration only makes sense if Article 3(2) IPRED is understood as prohibiting national courts from imposing disproportionate remedies. Since the UPC is bound by the proportionality principle, Article 63 UPCA must be interpreted in the light of the proportionality principle and to *permit* and *require* the UPC to refuse the grant of an injunction in the case of disproportionality.

Two questions remain. First, the UPC could either adopt a unitary approach or allow the local and regional divisions to follow their national traditions and apply different approaches. The latter possibility, however, would defy the unitary nature of the UPC and would result in forum shopping. The UPC will have to adopt one single approach to the criteria for granting injunctive relief. Secondly, the UPC will need to decide between the US "four-factor test" and the more careful English and German approaches, according to which injunctions are the rule and a refusal to grant an injunction the exception. So far, none of the EU member states has adopted a "four-factor test". Also, Article 3(2) IPRED requires the courts to balance proportionality against effectiveness and dissuasiveness. Injunctions play a central role in the patent system, which creates incentives to invent, to disclose, to inno-

²¹ BGH, 10 May 2016, X ZR 114/13, GRUR 2016, 1031, at paras. 40-50 – Wärmetauscher [Heat Exchanger].

²² *Ibid.*, at paras. 51-54.

²³ See *infra* at IV 2.

²⁴ Article 20 UPCA.

²⁵ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ L 195, 16 (corrected version).

²⁶ On which see Ansgar Ohly, 'Three principles of European IP enforcement law: Effectiveness, proportionality, dissuasiveness', in: Josef Drexel et al., *Technology and Competition, Contributions in Honour of Hanns Ullrich*, Brussels: Larcier, 2009, p. 257.

²⁷ According to which "the judicial authorities shall have the authority to order a party to

desist from an infringement".

²⁸ Matthias Leistner and Viola Pless, 'European Union', in *Injunctions in Patent Law (supra, note 7)*, pp. 26, 30; A. Ohly (*supra, note 26*), p. 264. Winfried Tilmann, in: Winfried Tilmann and Clemens Plassmann (eds.), *Unified Patent Protection in Europe*, Oxford: Oxford University Press 2018, Art. 63 paras. 29-34 argues that the UPC is not given any procedural discretion when deciding about the grant of injunctions, but concedes that a use-by period may be justified by the prohibition of abuse in Article 3(2) IPRED.

²⁹ See WTO Panel Report WT/DS79/R of 24 August 1998, *EC v. India*, para. 7.66: Graeme B. Dinwoodie and Rochelle C. Dreyfuss, 'Injunctive Relief in Patent Law under TRIPS', in *Injunctions in Patent Law (supra, note 7)*, 5, 8, 22-23.

³⁰ § 100 German Copyright Act. This provision

already existed in the initial version of the Copyright Act of 1965 (then § 101).

³¹ See Martin Stierle, *Das nicht-praktizierte Patent*, Tübingen: Mohr Siebeck 2018, p. 310.

³² On the similar situation in UK law before Brexit, see *HTC v. Nokia*, [2013] EWHC 3778 (Pat) at para. 21; but see W. Tilmann (*supra, note 28*), Art. 63 para. 39: Since Article 12 IPRED was not implemented, the UPC may not even deny injunctive relief in the case set out in that provision.

³³ *HTC v. Nokia*, [2013] EWHC 3778 (Pat) at para. 32; see also Richard Arnold, 'Injunctions in European Law – Judicial Reflections', in: *Injunctions in Patent Law (supra, note 7)*, pp. 65-69.

³⁴ CJEU, C-324/09, *L'Oréal v eBay*, ECLI:EU:C:2011:474, at para. 139.

vate and to licence³⁵ by putting the patent owner in the position to keep third parties from using the invention. This mechanism is central, and it should only be dislodged in exceptional cases. Hence Article 3(2) IPRED, the common European tradition and economic considerations militate in favour of the moderate approach: injunctions should issue as a rule in patent infringements, their grant should only be denied in exceptional cases. As a sidenote, it is bitterly ironic that probably the English approach to the grant of injunctions will prevail in the UPC at a time when the UK has withdrawn from the UPC system.

IV OPEN QUESTIONS

If the UPC adopts the approach suggested in this article, it will still need to clarify some details of the disproportionality defence and its consequences.

1 When to deny applications for injunctions?

First and most obviously the Court will have to define criteria governing the decision of whether to deny an application for an injunction. The English case-law, the new German statute, and also the US *eBay* test and the cases applying it may provide some guidance. But unlike in the US, the UPC should – and will probably – not conduct a balancing exercise in every single case but will only consider withholding the injunction exceptional circumstances justify this decision. Of course, every defendant who must stop using the invention suffers a disadvantage, as he or she will often have to stop the production, redesign products and will lose sales. But these usual negative consequences which are, as the new German statute puts it, “justified by the exclusive right”, do not yet result in disproportionality. The defendant, who bears the onus of proof in this respect, will have to show exceptional circumstances of the case.

The scenario which has probably been discussed most widely concerns complex products.³⁶ Particularly in the ICT sector, products such as mobile phones, but also increasingly cars and household appliances, embody large numbers of patented or at least patentable inventions. “Patent thickets” in this area make a freedom-to-operate analysis difficult, even for diligent producers. If only one component of a complex product infringes and if this component cannot easily be removed, the consequences of stopping the entire product from entering the market may have disproportionate consequences.

One of the four US factors is whether damages are an adequate remedy to compensate the plaintiff. The UPC will also have to take this criterion into account. However, it is just one of several criteria, and it should not be applied in isolation. This is particularly true with respect to non-practicing entities (NPEs), which find it difficult in the US under the *eBay* test to obtain injunctions.³⁷ The European approach will probably be more moderate. Not every NPE or patent-assertion entity (PAE) is a “patent troll” which abuses the patent system in order to extort undeserved profits.³⁸ On the contrary, they can significantly contribute to the efficiency of technology markets. Nevertheless, it is more likely that an NPE is adequately

compensated by damages than a producing entity which needs injunctive relief to defend its product market.

In this context, the Court can also take into account the conduct of the parties. If a PAE adopts a “snake in the grass” tactic³⁹ and waits unreasonably long before informing the defendant of the potential infringement, this will militate against an injunction. If, on the other hand, the defendant has not conducted a diligent search or has ignored licence offers, the Court will be more inclined to grant injunctive relief.

Injunctions can affect the interests of third parties and the public interest. This is most obvious in the case of medicine. An injunction to stop the production and sale of a COVID vaccine, for example, could endanger many lives.⁴⁰ It is no coincidence that Moderna, in its recently commenced legal action against Pfizer and BioNTech in the US and in Germany, does not claim injunctive relief, but only damages.⁴¹ Another example in point are the heart valves cases, which were litigated both in England and in Germany. The defendant had produced artificial heart valves which infringed the claimant’s patent. Doctors and clinics could switch to the claimant’s product, but they needed time to adjust. An immediate injunction could have led to a shortage of artificial heart valves and might have put patients’ lives in danger. In England, the High Court suspended the injunction for a period of one year, which was the estimated time which doctors and hospitals needed to become used to the claimant’s product.⁴² The Düsseldorf District Court, however, granted the injunction and argued that the Patent Act provided for compulsory licensing, the conditions of which should not be bypassed through the backdoor of proportionality.⁴³ This view also found prominent support in the German legal literature,⁴⁴ but it did not prevail when the Patent Act was amended. § 139(1) of the Act now explicitly states that the interests of third parties can justify the denial of an injunction. This approach is convincing. Compulsory licences grant the applicant the full right to use the invention. Since they significantly interfere with the owner’s right, they are rarely granted in practice.⁴⁵ Disproportionality, on the other hand, does not provide a full defence. The defendant remains an infringer and can still be ordered to pay damages. Only injunctive relief is excluded, and it is usually not excluded for the entire patent term but only for a limited period, as the heart valves case shows. At the European level, there is another important consideration. While patent enforcement will become supranational once the UPC is in operation, compulsory licensing remains national, even though the Commission now considers introducing pan-European compulsory licenses.⁴⁶ So, the possibility of the defendant to obtain compulsory licences in each relevant EU countries is a theoretical rather than a practical one, and is, hence, at best a weak argument against considering third-party interests when deciding about injunctive relief.

It should be stressed that the UPC, when deciding about the grant or denial of an injunction, should take all circumstances of the case into account and weigh all rele-



vant factors. It would be too wooden to state that “PAEs can never obtain an injunction”, that “patients’ interests always prevail” or that “an injunction should always be granted if the defendant rejected an offer for a licence”. Rather, the decision should be based on what the great Austrian legal theorist Walter Wilburg called a “flexible system” (“bewegliches System”): the strength of one factor can outweigh the weakness of another factor. The court is also flexible when deciding about whether to deny granting the injunction altogether or whether to suspend it for a limited period, for example for a “use by” or adjustment period.

2 Can the UPC grant compensation in lieu of an injunction?

The grant of an injunction may be disproportionate, but it does not follow that the defendant can use the invention for free. Under the principles of equity, common law courts can grant compensation in lieu of an injunction, both in general private law cases and in intellectual property law. This can also be done prospectively: US courts grant ongoing royalties when they have found infringement but have denied injunctive relief, but the principles of calculating the royalty are still in dispute. § 139(1) of the German Patent Act as amended in 2021 also explicitly provides that the court can grant compensation. So far, this provision has not been tested in any cases. As in the US, a controversial discussion about the legal nature of the compensation and about the principles of calculation has started.

Unlike German law, the UPCA does not explicitly empower the Court to grant compensation. As mentioned above, Article 12 IPRED, which provides for compensation in a very limited case, has not been implemented in the Rules.⁴⁷ And unlike US or English law, the UPCA is

not embedded in principles of common law and equity. Hence it is unclear if the UPCA can order compensation at all. The answer lies in the principle of proportionality itself. The grant of an injunction can be disproportionate, but it would be equally disproportionate to allow the defendant to use the invention for free. In the heart valves case,⁴⁸ for example, the High Court suspended the injunction for an adjustment period, but fairness requires that the defendant pay a reasonable licence fee for the time in which it is allowed to produce and sell the infringing product. Since an order of compensation is usually a necessary element of a proportionate solution, and since a compensation order is a minus compared to an injunction,⁴⁹ the principle of proportionality provides a sufficient legal basis. There would nevertheless be a case for including an explicit provision to this effect in a future amendment of the UPCA or of the rules. It should be added that the issue may not be as practically relevant as it seems at first sight. Even if the grant of an injunction is disproportionate, the infringement remains unlawful, and the patent owner retains his or her claim for damages in case of an intentional or negligent infringement under Article 68 UPCA.

³⁵ See M. Stierle (*supra*, note 31), p. 240.

³⁶ See Norman V. Siebrasse et al., ‘Injunctive Relief’, in: C. Bradford Biddle, Jorge L. Contreras, Brian J. Love & Norman V. Siebrasse (eds.), *Patent Remedies and Complex Products*, Cambridge University Press, 2019, pp. 115, 118-122; and the opinion of Justice Kennedy in *eBay v. MercExchange*, 547 U.S. 388, 397; *HTC v. Nokia*, [2013] EWHC 3778 (Pat) at para. 62 per Arnold J. (referring to the traditional analogy of a whistle on a battleship); Entwurf eines Zweiten Gesetzes zur Vereinfachung und Modernisierung des Patentrechts [Draft Second Act to Simplify and Modernise Patent Law], BT-Drucks. 19/15821, p. 54.

³⁷ *Supra*, note 13.

³⁸ On the extensive discussion on “patent trolls” see Mark A. Lemley & A. Douglas Melamed, ‘Missing the Forest for the Trolls’, 113 Colum. L. Rev. 2117 (2013); M. Stierle (*supra*, note 31) pp. 133-166.

³⁹ Term coined by Robert P. Merges & Jeffrey M. Kuhn, ‘An Estoppel Doctrine for Patented

Standards’, 97 California Law Review 1, 3 (2009).

⁴⁰ In the middle of the pandemic, the LG Düsseldorf granted an injunction concerning a patent on a flexible breathing tube despite the defendant’s argument that this was disproportionate in the light of the pandemic. One of the reasons advanced by the court was that at the time of the decision (June 2020) there were no indications that a second COVID wave was likely (!), LG Düsseldorf, 16 June 2020, 4c O 43/19, GRUR-RS 2020, 52267.

⁴¹ See Jorge L. Contreras, ‘No Take-Backs: Moderna’s Attempt to Renege on its Vaccine Patent Pledge’, available at <https://blog.petrieflom.law.harvard.edu/2022/08/29/no-take-backs-modernas-attempt-to-renege-on-its-vaccine-patent-pledge/> (last visited on 6 September 2022).

⁴² *Edwards Lifesciences v. Boston Scientific Scimed* [2018] EWHC 1256 (Pat), but see also *Evalve v. Edwards Lifesciences*, [2020] EWHC 513 (Pat).

⁴³ LG Düsseldorf, 9 March 2017, 4a O 28/16, GRUR-RS 2017, 104662 at II 1 a.

⁴⁴ Klaus Grabinski, ‘Injunctive Relief and Proportionality in Case of a Public Interest in the Use of a Patent’, GRUR 2021, 200, 202.

⁴⁵ In Germany, only two compulsory licences have been granted since 1945, of which only one was upheld by the Federal Supreme Court.

⁴⁶ The Commission has launched a public consultation on compulsory licensing, see the press release of 7 July 2022, available at https://single-market-economy.ec.europa.eu/news/commission-seeks-views-and-input-compulsory-licensing-patents-2022-07-07_en (last visited on 6 September 2022).

⁴⁷ See W. Tillman (*supra*, note 28) at para. 30, who concludes that the UPC does not have the power to award compensation in lieu of an injunction.

⁴⁸ *Supra*, note 42.

⁴⁹ M. Stierle (*supra*, note 31), p. 276.

If the UPC adopts the approach suggested here, it will also be able to grant compensation *ex ante* in the form of ongoing royalties. As in the US and in Germany, the calculation of the amount of compensation will be a challenge. In US law, the Federal Circuit in *Amado v. Microsoft*⁵⁰ rejected the argument that, once infringement was established, the defendant's continued conduct was intentional because the continued use was with the court's approval. On the other hand, according to the Federal Circuit the future royalty could not be equated with the damages assessed for the past.⁵¹ A similar discussion has started in Germany under the new provision on compensation in § 139(1) of the Patents Act. Some authors argue that compensation should have a deterring or even a punitive effect.⁵² Others do not go quite as far, but nevertheless think that the compensation should compensate the right owner for the loss of the threat potential of an injunction.⁵³ The third opinion compares the claim for compensation with provisions in the Civil Code which compensate owners for the entire or partial loss of rights and concludes that the action for compensation is, in essence, an action for unjust enrichment. Consequently, the amount of compensation should equal the value of the infringing use and should, hence, be calculated on the basis of a notional licence fee.⁵⁴

It may seem premature to discuss this issue with respect to the UPC before the Court has even had the opportunity to decide whether claims for injunctions can be rejected on the ground of disproportionality at all. But one doctrinal and one pragmatic argument militate in favour of calculating compensation on the basis of a notional licence fee. The doctrinal argument is that a claim for damages requires intent or negligence whereas compensation does not require any subjective elements. Since the claim has less requirements, it should also go less far. The pragmatic argument is that it is almost impossible to determine the "threat value" of an injunction. The defendant's loss if the injunction is granted is not a valid proxy, because the injunction is disproportionate. But which amount is higher than a reasonable licence fee but lower than a disproportionately high licence fee? Rather than adding a standard "loss of injunction addendum", the courts should do what they can do best: determine a notional licence fee. The

UPC as well as national courts should resist introducing punitive damages through the backdoor of compensation.

3 Disproportionality and FRAND

The third question which will arise sooner or later is how proportionality relates to the FRAND principles in cases concerning standard-essential patents (SEPs). On the one hand, the enforcement of an SEP against an implementer who is willing to take a FRAND licence would be disproportionate, on the other hand the principles which emerge from the CJEU judgment in *Huawei v. ZTE*⁵⁵ and from national court decisions could be regarded as a *lex specialis*.

The UPC should and will probably look for an interpretation of the proportionality principle which is in line with the *Huawei* judgment. It should be noted that both proportionality and the notion of "abuse" in competition law are very general concepts which must be interpreted in the light of fundamental rights and freedoms. The framework for fair negotiations which the UPC outlined in *Huawei* equally provides guidelines for proportionality. Hence, an implementer who is offered a licence on FRAND terms will not be able to avoid its *Huawei* obligations by arguing disproportionality, unless there are additional circumstances of the case. But the principle of proportionality might become relevant in areas beyond the reach of the *Huawei* principles. First, it might provide a solution in cases of overdeclaration, i.e. in cases in which a patent owner has declared patents which later turn out not to be standard-essential after all. Article 102 TFEU does not apply, as the non-SEPs do not confer a dominant market position on the patent owner. But the patent owner's prior declaration could render the enforcement of the patent disproportionate. A second issue is succession in title. When a patent covered by a FRAND commitment is assigned to a third party, it is unclear if the assignee is bound by the FRAND declaration.⁵⁶ The principle of proportionality might provide the answer: If the assignee knows about the prior declaration and the implementer relies on it, a claim for an injunction is disproportionate, as long as the implementer fulfils its *Huawei* duties.

⁵⁰ *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008).

⁵¹ *Amado v. Microsoft Corp.*, 517 F.3d 1353 (1360) (Fed. Cir. 2008); see also *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312 (1342) (Fed. Cir. 2012).

⁵² Fabian Hoffmann, 'Der Ausgleichsanspruch im Patentrecht', GRUR 2022, 286.

⁵³ Gerhard Wagner, 'Die Aufopferung des patentrechtlichen Unterlassungsanspruchs', GRUR 2022, 294.

⁵⁴ Ansgar Ohly, 'Der Ausgleichsanspruch gemäß § 139 I 4 PatG als Rechtsfortwir-

kungsanspruch', GRUR 2022, 303.

⁵⁵ CJEU, C-170/13, *Huawei Technologies v. ZTE*, ECLI:EU:C:2015:477.

⁵⁶ Several doctrinal possibilities for achieving this result have been suggested, for example a standard estoppel, see R.P. Merges & J.M. Kuhn (*supra*, note 39), an accessory character of the FRAND commitment, comparable to a mortgage in property law, see OLG Düsseldorf, 22 March 2019, 2 U 31/16 – *Improving Handovers*; but see the criticism of this approach by Lea Tochtermann, 'Das Schicksal der ETSI FRAND-Er-

klärung bei Übertragung des SEP', GRUR 2020, 905, 912-913; Tim Dornis, 'Standardessenzielles Patent, FRAND-Bindung und Rechtsübergang', GRUR 2020, 690, 692-696, or a solution on the basis of antitrust law principles, see M Leistner & Lukas Kleeberger, 'Die Drittwirkung von FRAND-Erklärungen aus kartellrechtlicher und vertragsrechtlicher Sicht', GRUR 2020, 1241, 1243-1247.

V CONCLUSION

The UPC will be bound by the principle of proportionality (Article 3(2) IPRED), which applies not only to patent enforcement in general, but which must be observed in every single case. It follows that the UPC not only has the power, but even a duty to deny the grant of an injunction if it would lead to a disproportionate result. Unlike in the US under the “four-factor test” set out by the Supreme Court in *eBay v. MercExchange*, however, disproportionality will be an exception. It may apply, for example, in cases of complex products or when third-party interests, such as patients’ interests, are at stake. If the UPC denies injunctive relief, proportionality will often require the Court to order a compensation payment. The UPC can do so, even without an explicit basis in the UPCA.

Continental patent lawyers should not be afraid of this flexibility. It will not undermine the effectiveness of the patent system. The principle of proportionality can be compared to a safety valve. It does not normally take the pressure off the kettle. But if the pressure becomes too high, the safety valve prevents the kettle from exploding. This is exactly what proportionality does.



Prof. Dr. Ansgar Ohly

Prof. Dr. Ansgar Ohly holds the Chair of Private Law, Intellectual Property and Competition Law at the Ludwig Maximilian University of Munich. He is also a Visiting Professor at the University of Oxford.

He studied law at the universities of Bonn and Cambridge (LL. M.). Prior to joining the Munich Faculty of Law, he was a senior researcher at the Max Planck Institute for Innovation and Competition and, subsequently, a

professor at the University of Bayreuth.

His main fields of academic interest are all areas of intellectual property law and the law of unfair competition law, with a special emphasis on European developments and on the comparison of civil law and common law systems. He is a co-editor of GRUR, the leading German intellectual property journal. His publications include commentaries on the German Act against Unfair Competition, the German Trade Secrets Act and a large number of articles in both English and German on patent, copyright, trade mark and unfair competition law.

