## International

# Key considerations in transnational patent litigation

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Extortion or blackmail is a criminal act which is prosecuted in most countries. However, if an extortioner stays within the legal framework of specific acts, he or she can manipulate a competitor or assets owner into waiving potential claims and/or assets – and prosecutors are unlikely to take notice.

How this can happen in a democratic state with an advanced legal system? This contradiction results from the fact that the legal framework was created many generations ago, when the protection of tangible assets was the main focus. In those days, individuals or states would attempt to obtain tangible assets belonging to other individuals or other states by way of theft or force. Nowadays, many states have concluded agreements to avoid conflict and to participate in fair trade. The World Trade Organisation (WTO) regulates the international trade arena in order to prevent extortion, among other things. According to the Agreement on Trade-Related Aspects of IP Rights, each contracting state to the WTO (most recently, Russia) must follow international rules to treat other states fairly and within the parameters of the agreement.

However, when it comes to the enforcement of IP rights in or between states, there are still many loopholes within the legal system with regards to the protection of intangible assets.

Some states request the parties in litigation to bear their own costs, while others ask the loser to pay the winner's costs. Both systems are liable to abuse by plaintiffs.

In Germany, legal costs are determined by the value of the dispute; the costs are fixed by the judge according to the plaintiff's proposal and must be reimbursed by the loser. Judges could use a split value to redress the financial risk of economically unbalanced parties. However, if one party is close to bankruptcy and cannot afford to defend the case, it is extremely unlikely that the party will litigate a patent infringement case, and therefore the possibility of a split value of dispute will become applicable. This is due to the following reasons:

- were parties to benefit from a lower risk of costs to be compensated, it is likely that more cases would be brought before the courts, which would lead to a greater workload for the legal system;
- were reimbursement thresholds lowered as a result of lower value disputes, this would decrease court fees, which would lead to a lower income for the state; and
- were a party to benefit from a lower risk of costs, the other party could infer that the judge was prejudiced.

Therefore, the opportunity for financially strong parties to blackmail financially weaker parties remains.

*"Then you [poor] had better stop claiming in written form, that we [rich] are ignoring your patent, because then we have to ask judges to confirm whether we [rich] are right in assuming that your [poor] patent is not covering our [rich] product or method and whether your [poor] patent may be invalid. Of course our [rich] interest in the outcome of those lawsuits is at least several millions of Euros, on which basis the value of dispute will be set by the judges. If you [poor] cannot afford to lose such declaratory judgement or to file a plea and to refund the resulting costs, then you [poor] better stop claiming that we [rich] are ignoring your patent in written form."*

These are the typical words which many small and medium-sized enterprises (SMEs) hear when they face a financially stronger infringer. Often SMEs are discouraged from obtaining patents after hearing of or experiencing untoward behaviour from larger competitors.

As long as these procedural rules remain and judges are not compelled to apply different values to disputes based on a list of criteria (which determines the value to be applied according to the ratio of the sums from the involved parties' balance sheets), the blackmailing of weaker competitors will continue.

Those SMEs which have up to an 80% global market share in their specific product or service line (and those which are growing) know that only IP rights can assist them to maintain their leading position.

All other SMEs will increasingly try to keep their trade secrets and know-how undisclosed for as long as possible, and therefore not contribute to the growth and enrichment of advanced technologies.

In Germany, legal costs, the amount of time needed and the likely result of proceedings are generally predictable, due to the system's experience of dealing with thousands of IP cases, provided that the parties have a similar market power and are not at risk of being blackmailed. That is why approximately 80% of all European IP litigation is handled by German courts.

In countries where parties are requested to bear their own costs in litigation cases, it is thought that blackmail does not occur; however, it often creeps in through the back door. To obtain full knowledge of the facts and merits of a case on which judges can decide, and without a party risking losing the case and being obliged to compensate the other party in full, there is little incentive to present a full picture of the case.

Each party tries to collect as many facts as possible which are supported by the legal system; this is called the 'discovery procedure'. Given that the discovery procedure can generate costs of approximately $5 million, it is easy to understand why few SMEs can afford to be involved in patent litigation cases.

Imagine that you are the head of a successful start-up company and your products or services begin to generate interest in the market. Your product or service line comes to the attention of your major competitors – how will they react? You will most likely receive an offer to buy or license your new technology and related patents for a cheap price.

Imagine that headhunters of several interested parties become aware of your company's success. The offer price will likely increase and you will have to choose as quickly as possible which of the interested parties should become the owner of your company – or at least of your patents.

If you fail to make a quick decision or find yourself a patent troll which is ready to invest in your technology, then you may be asked to prove that you are not infringing a patent held by another party. Because you cannot afford a thorough patent search of all the patents existing in the field of your technology with a 'freedom to operate' result, you will most likely be forced to sell or license the requested technology instead of risking the cost of a discovery procedure, which could ruin you.

This is why there are almost no industrialised SMEs in the United States and almost no small-entity claims in patent prosecution. If you try to benefit from the reduced fees for SME claims in patent prosecution, you may even compel trolls and headhunters to chase you and to obtain your new technology as early and as cheaply as possible.

The US style of economy, where the growth of major corporations is based on buying in advanced technology through 'open innovation' processes, might result in a sufficient national growth rate in the short term, but is not feasible for future generations facing a growing challenge from ambitious Asian countries looking to improve their standard of living.

A strong SME bridges the gap between the company and its workers with strong social ties and long employment relations. SMEs do not subscribe to the 'hire and fire' mentality, but encourage and maintain the inventive spirit, know-how and trade secrets of their employees in order to keep their human capital within the company for as long as possible – even for several generations. Such an appreciation of people avoids burn-out effects and contributes to a more vivid democracy.

The discovery procedure is not only a barrier for the development of SMEs, but also a tool with which to blackmail importers, which deliver goods into the US market.

Imagine that you are the head of a successful SME based in Germany which sells goods to the US market. A competitor or patent troll warns you that your product infringes at least one of its patents. It threatens to file a lawsuit and subject you a discovery procedure, which would ruin you. However, it offers you an unlimited licence for $500,000, provided that you sign the contract within three days. It adds that should you wish to take time to consider the offer, the price will increase to $1 million after two weeks and $2 million after one month, after which time the offer will expire.

You would be justified in accepting the first offer of $500,000 and paying the contracted licence fee in time. Whether such behaviour complies with corporate governance rules, or whether the WTO can put a stop to such methods of holding importers to ransom, remains a contentious issue.

It may appear that large US corporations have enough manpower to handle discovery procedures. However, this is not always the case, as shareholders of a corporation often demand predictable results and expect legal department budgets to stay under control. In order to avoid uncontrollable costs resulting from discovery procedures, US corporations have started to litigate their legal disputes in Germany, as similar results to those in the United States can be obtained without a discovery procedure and with the added bonus of a speedier legal process.

Bypassing the US legal system does not make US judges happy. In contrary, Chief Judge Randall Rader and several of his colleagues addressed this issue, stating that the US system must be amended in order to revert the existing discovery procedure back to its roots, so that the necessary information can still be obtained, but only with a court order which clearly defines which information the defendant must deliver to a neutral expert. This is similar to the German enforcement act, which resulted from the EU IP Rights Enforcement Directive (2004/48/EC) and the Product Piracy Act.

China is now in a position to optimise its legal system by having its judges trained by their German and US counterparts. China will soon be able to compete with Germany, as its system looks to become even faster than the German system, yet still remain reasonable in terms of costs.

The requirement to have all documents necessary for a lawsuit notarised and legalised in order to avoid falsified documents remains, but allows the infringer to hide infringing actions in the meantime. China has developed a clear policy of controlling as many raw material resources as possible, including intellectual resources, and this entails the enforcement of the resulting rights, regardless of whether the assets are tangible or intangible. iam

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