

## **No Multiple Damages for Patent Infringement under German Law?**

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### ***1. Introduction***

Non-European readers may perhaps be less aware of the fact that despite the two European Patent Conventions and the rather successful start thus far of the European Patent Office, the overall harmonization of European patent laws is far from complete. It is true that following November, 1977, when the EPO began its work, the Strasbourg Patent Convention on the unification of certain points of substantive law entered into force on August 1, 1980. Most EC countries have also modified their national laws - some for the second time within a few years - in order to bring them into harmony with the Strasbourg, Munich and Luxembourg Patent Conventions; the entry into force of the latter, however, is not yet in sight. One of the reasons is that several countries require the establishment of a European Court of Appeals in patent matters and, at the same time, wish to have the law of patent infringement harmonized - a considerable task in view of the many differences in procedure and substantive law. After an initial "brainstorming" on international conferences<sup>1)</sup>, expert committees have been appointed on the national and European level. These have not as yet achieved any final result, more for political reasons than because of any disagreement among experts. One of the issues discussed is a uniform catalog of remedies against infringers. In view of the generally favorable attitude towards inventors which prevails in most European countries, the question was raised whether the present national laws, in particular the provisions and rules on the grant and calculation of damages, are adequate to deter possible infringers and to protect the patentee. The overwhelming view among practitioners was that the common practice of the courts in most European countries to grant damages in form of a "reasonable royalty," even if the infringer has acted willfully, constitutes an invitation for the latter to make as much profit as possible with the invention and have the final injunctive judgment in an infringement suit delayed as long as possible.

Under German law the patentee may also calculate his damages on the basis of lost profits or he may claim as damages the profit earned by the infringer. For either alternative the burden of proof, as to the sums claimed, is upon the patentee, who in the great majority of cases will be unable to convince the court of his actual losses, or will not want to open his books to the infringer and disclose his profit situation. Therefore, he will prefer to rely on a royalty, which for most technical fields will result in a 4-6 % license fee.

These difficulties have led German scholars and practitioners to advocate a more refined system for the calculation of damages. The fundamentally inequitable practice of the courts to treat an intentional infringer and a voluntary licensee alike has been attacked severely in the past. 2) Based upon experience under U. S. patent law, one of the proposals favored the institution of multiple damages as provided for in 35 U. S.C., Sec. 284. 3) Instead of waiting for the legislature, patentees in Germany have already tried to convince the courts that an increased license fee may already be granted under existing law. It was argued that a royalty which is "generally" or "normally" paid by voluntary licensees is often not "adequate" or "reasonable" in the case of an intentional infringer, especially where the patentee had chosen not to license the patent at all because his own production capacity was sufficient to satisfy the needs of the market.

## ***2. The Decision of the Supreme Court of March 6, 1980.***

The first of those cases has finally reached the Federal Supreme Court, and its decision is published in this issue. 4) The patentee in that case had requested and obtained in the trial court a royalty of 36 % of the defendant's turnover. This percentage was not calculated by doubling or trebling the "generally prevailing" percentage on the market, but was calculated by the patentee as a 10 % profit royalty and a 26 % share for research, development and marketing costs. On appeal the patentee had, as a subsidiary claim, calculated the 36 % in a different way: he started from a contractual license of allegedly 10 %, a punitive "supplement" of 5 % and a multiplication of such 15 % by 1.732, because the prices of the infringer on which the royalties had to be based were 42 % lower than the prices of the patentee.

### **(a) Lost Profits Claim**

The Court of Appeals only granted 8 on the royalties, plus 11 % interest on the royalties. Referring to the strict standard of proof required for the calculation of damages in cases of patent infringement, the Federal Supreme Court dismissed the patentee's appeal on the law. Although the determination of damages in infringement matters is mainly based on estimates, the Supreme Court ruled that the facts should be sufficiently clear and convincing to enable such estimates. Although the Court, in principle, does not reject the award of higher damages calculated under the lost profits theory, it requires a detailed list of profits and product-related costs. The Court emphasized, however, that such details had not been given by the plaintiff, and added that the plaintiff had thus violated his procedural obligation of full disclosure since he could have given the necessary information without difficulty. The Supreme Court asserts that the alleged percentage of 36 % of the turnover is not based on product-related data but upon internal "experience" of the plaintiff, a calculation which includes all products successful as well as unsuccessful, of the plaintiff's pharmaceutical branch.

The Supreme Court rejects both arguments on which the plaintiff had based his claim: The first was that "Rastinon," the product in question, had been an extraordinary commercial success and that the 36 % rate constituted the minimum profit margin of successful products after deducting an overhead for the less successful ones.

Although the Court acknowledges from general experience that pharmaceutical companies earn the costs for research from the sale of their successful products, it holds that, nevertheless, the exact amount of profits cannot be alleged as a matter of experience. Even if some products might attain the rate of 36 %, there would certainly be different margins between above average "runners" or "bestsellers," depending on differences in production, distribution, market conditions, long-term planning, and so forth. The uncertainty in a single case would be too great to apply average percentages which are unrelated to specific products as a basis for estimating lost profits.

The Court also rejects the second thesis of plaintiff that the price difference between defendant's and plaintiff's products of 42 % indicates the approximate loss. The argument of the patentee in this respect was that the defendant would certainly not sell his product at a loss. Here again the Court rules that without a detailed comparison between the production methods of the plaintiff and the defendant, the price difference does not provide a secure basis for such a presumption. The facts that should have been provided by the plaintiff, according to the Court, are the profits and costs directly related to the protected product.

### **(b) Reasonable Royalty**

Plaintiff's second, subsidiary claim for a 26 % license fee, which plaintiff regarded as "reasonable" in the present case, had already been rejected by the Court of Appeals which only granted 8 %, calculated on the turnover of the defendant, i. e. on prices that were 42 % lower than those of the patentee. The Supreme Court affirmed the decision of the Court of Appeals also on this point. Starting from the presumption that an infringer must be treated as if he had asked the patent owner for a license, it confirms the principle of a "reasonable royalty" that should be paid in such cases. The 8 % royalty, according to the Court, already constitutes a rate which is 60 % above the average royalty in the field of pharmaceuticals. This increase is not due to a negligent or intentional infringement committed by the defendant, but is based on the objective circumstances of the case. The Supreme Court expressly rejects any claim for "punitive damages," holding that this would go beyond the scope of the damage concept of patent law.

### ***3. Comment***

That strict rules of evidence must be applied to the calculation of damages is not disputable. In the case decided by the Federal Supreme Court evidence was provided by the patentee that the drug imitated by the defendant was one of the most successful on the market, with a high profit margin, and that this was the reason for the infringement and that, in addition, the infringer was able to sell at a price 42 % below the patentee's. It may well be that there were also other reasons in the structure of the two companies which could explain this price difference, but it should be clear that at least one reason for the price difference, and not the least significant, was that the infringer saved the expense of research and development. Why did the Court not accept the general percentage of expenses for research and development, which is generally known in the pharmaceutical industry, as an indication of the infringer's savings? Furthermore, in view of the facts presented by the plaintiff, the burden of proof should be with the defendant to explain why he was able to sell at prices which were 42 % lower than those of the patentee.

#### **(a) The Required Standard of Proof**

If one reads the decision carefully, it is apparent that the Court has not definitely barred the possibility of claiming considerably higher damages, if the plaintiff furnishes sufficient proof in support of the sums claimed. However, with the entire burden of proof upon the patentee and considering the internal facts to be disclosed by the patentee in such cases in order to prove the exact allocation of costs and profits to a specific product, it has become practically impossible for a patentee to obtain the damages due to him from an objective point of view. Not only does this call for the disclosure of most valuable information concerning the competitive position of the patentee on the market, but an ex post analysis of cost allocation would in most cases simply be impossible to realize. It would certainly be asking too much of a company to permanently keep track of the financial status of any single product sold for the sole purpose of proving a higher royalty rate in a possible patent suit.

Based upon the statements of the plaintiff the Court concludes that the latter would have been able to provide the necessary data for the calculation of costs and profits to be allocated to the product in question. Regardless of whether this was a misunderstanding on the part of the Court or not - it will normally be highly difficult to produce a record of costs which are directly related to a specific product, especially if research costs are to be included. Furthermore, it would be unjustified to deny the plaintiff the right to include his average research overhead in his calculation and to restrict him to the more or less accidental research costs of a particular product, e.g. if the latter had been found accidentally as a by-product of a much more expensive research project which perhaps may have even turned out to be unsuccessful.

## (b) Multiple Damages in Copyright Law

There is another reason why the categorical refusal to increase the percentage of royalties in the present case is unjustified, although the defendant admittedly had acted in bad faith. The refusal is based on the argument that multiple damages would go beyond the scope of the damage concept of patent law. Here it must be mentioned that the Federal Supreme Court, speaking through its First Senate which is competent for copyright cases, had already granted a double license fee in 1972 to a collecting society for unauthorized public performance of musical works. 5) The Court, in that case, held that the costs for the control system of the collecting society warranted an increase of the normal fees by 100 %. The Court recognized that such costs which are not related to a single case of infringement cannot be defined as "damages" in the strict sense, because it is impossible to allocate a portion of it to a certain case with any degree of certainty. The First Senate, however, distinguished between patent and trademark infringement or record piracy on the one hand, and an unauthorized performance of musical works on the other. In the first category infringing products are put on the market where, according to the Court, they can soon be realized by the patent owner, whereas a nonauthorized performance of a musical work occurs in places which would never come to the attention of the copyright owners without a sophisticated control system. The Tenth (Patent) Senate of the Supreme Court follows this reasoning and rejects the claim for multiple damages on the same grounds.

## (c) Need for More Effective Patent Protection

Patent owners in Germany and other European countries have been voicing increasing dissatisfaction with the ineffectiveness of legal protection against infringements. The first complaint concerns the fact that preliminary injunctions are very seldom granted in cases of patent infringement. In Germany, where, e.g., in the field of unfair competition nearly all law suits start with a preliminary injunction, most of the courts refuse to grant such injunction in patent cases on the ground that patent cases are too complex and possible damages too high if a company is forced to discontinue its production. 6) The result is that the infringer may continue production throughout the four or five years of litigation, until the case is finally decided by the Federal Supreme Court. 7) Although the patent owner could, in theory, enforce the judgment of the court of first instance upon the deposit of a - generally very high - bond, he would take the full risk for any lost profits of the infringer if the court of second instance or perhaps only the Federal Supreme Court should take a different view of the infringement issue<sup>8</sup>). Therefore, the only effective remedy for the patentee is the damage claim. Here an American patentee is much better off than his German colleague<sup>9</sup>), since, as the case reviewed here shows, even in cases of intentional infringement, the courts do not grant more than a "reasonable" or "adequate" royalty. This practice of putting the infringer on the same footing with a contractual licensee is the focus of attack by German practitioners and legal scholars. The reasons are obvious:

- The infringer forces the patentee to "grant" a license, although the patentee often would never have dreamed of giving up his monopoly on the market.
- The infringer dictates the prices for the infringing products and often undersells the patentee. In license contracts, however, minimum prices are often agreed upon.
- The infringer takes no risks of innovation and marketing since he usually imitates a successful article which is already on the market.
- The infringer is never bound by a no-contest clause, which under German antitrust law is still possible and enforceable in a license contract, at least as long as the contract is in force. He therefore has the chance of invalidating the patent when sued by the patentee.
- There is a further chance that the Court finds against the plaintiff and dismisses the infringement claim.

- During the whole period of litigation the infringer sells without the additional expenses of royalties, which sums he can either use as working capital or as a means to reduce prices and undersell the patentee.
- The defendant can even reduce his taxes by building up - during the whole period of litigation and back to the first sale of the allegedly infringing device - special contingency reserves for the "expected" damages, which are tax deductible.

It is evident from the foregoing that the intentional infringer has the greatest interest in delaying the litigation. While an innocent defendant, who has independently developed a device similar to the one protected by the patent, normally has the greatest interest in an early decision in order not to disturb the market and his own customers, the intentional infringer takes advantage of the market disturbance in order to cut the sales of the patentee. He not only can grant more favorable prices to his customers, and thereby close the outlets to the patentee, but he can even be so "generous" as to release his customers from any potential damage claims that might be raised against them by the patentee, because the amounts of such claims are identical with those raised against himself, namely a percentage of his total turnover. Those amounts he has already included in his tax exempt reserves and earnings. 4. Conclusion In the decision discussed here, the Federal Supreme Court leaves it up to the German legislature to change this situation. The German legislature, however, having just completed the third patent law revision in thirteen years, which is at the same time the most comprehensive one, 10) will be reluctant to take any initiative in that direction without the aid (and pressure) of European instances.

The unsatisfactory situation will therefore remain unchanged in Germany, namely that attorneys who explain the legal and financial risks of a patent suit to a would-be infringer will seldom persuade him to discontinue the production and sale of the (allegedly) infringing products. Such a situation however is, in the long run, unacceptable. Legal advice that "infringement always pays," does not only impinge upon the attorney's professional standard of ethics but, at the same time, also weakens the effectiveness of protection of industrial property rights and with it the basic principles of the patent system.

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1) E.g., the conferences organized by FEMIP in June, 1976, in Paris, and by CEIPI in September, 1976, in Strasbourg, and by the German Association for Comparative Law in Lausanne in September, 1979. See for the latter the reports on the situation in Germany, Switzerland, France, Austria and the U.S.A., published in GRUR Int. 1980 259-316 .

2) See PIETZKE, GRUR 1975 55 ; PREU, GRUR 1979 753 ; FRITZE, GRUR 1979 290 ; VON FALCK & OHL, GRUR 1971 541 ; PAGENBERG, GRUR 1980 295 .

3) See PAGENBERG GRUR 1980 297 . with further references.

4) German Federal Supreme Court of March 26, 1980 - Tolbutamid, in this issue at 763.

5) Federal Supreme Court, GRUR 1973 379 Doppelte Tarifgebühr.

6) One recent exception was the decision of the Court of Appeals of Karlsruhe. GRUR 1979 700 Knickarmmarkise,

7) In this context it must be mentioned that in Germany the Infringement Court cannot decide the question of validity, so that a separate nullity suit must be filed in the Federal Patent Court. This means that the infringer can further delay the litigation. since he may ask for a stay of proceedings in the infringement suit until the validity issue has been finally decided by the two nullity instances, the Federal Patent Court and the Federal Supreme Court.

8) Cf. Federal Supreme Court, 6 IIC 87 (1975) - Runless Hosiery, where a strict standard is already applied in the case of an unjustified warning.

9) Treble damages in the U.S. under 35 U.S.C. § 284, although not granted too often. seem to be an effective warning to willful infringers; see the latest report by FITZPATRICK, "Damages in Trademark and Patent Infringement Litigation," 8 APLA Quarterly Journal 29, 41 et seq. (1980).

10) Cf. Revision Law of January 1, 1981. comprising 146 Sections in comparison to 55 in the old Act.