

# Active and Passive Patent Strategies

Thilo Schmelcher

**Abstract** This chapter deals with active and passive patent strategies. Several aspects will be highlighted from patent filing strategies towards litigation strategies both from an active viewpoint as claimant and a passive viewpoint as a respondent. Active and passive will be interpreted with respect to an intellectual property rights (IPR) portfolio and it will be interpreted in light of actions performed with respect to an IPR portfolio. Both views have an influence on each other. Even though these perspectives are at first hand seen as independent, typically a claimant will also become a respondent. Also the portfolio situations may change and so—up to a certain point in time—an IPR portfolio may still be shaped to same extent.

**Keywords** Patent • Prosecution • Infringement • Portfolio • Litigation

**Pre-Remark** In the following it is assumed that a product is based on certain technologies while a competing product may be directed to a like product and may be based on same technologies and/or other technologies. Also, we will refer to IPR portfolios, which encompass any kind of intellectual property right such as patents, utility models, supplementary protection certificates, trademarks, designs. Nevertheless this article will focus only on patents and utility models.

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## 1 Introduction

Defining a strategy should always be the starting point when engaging in IPR. As many aspects are to be considered the strategy needs to reflect the competition. Competition thereby involves a strategic analysis of competing products, competing technologies as well as competing products. Once the competitive situation is understood it is possible to adopt a corresponding filing and/or litigation strategy which reflects the own ambitions as well as the competitive situation. In the following aspects of this process will be highlighted.

## 2 Portfolio View

Active and passive strategies for an intellectual property rights (IPR) portfolio may be more precisely understood as a proactive or a defensive filing strategy. Both strategies shape the initial IPR portfolio and influence portfolio maintenance costs. Also the question where (and why) to file shall be taken into account.

### 2.1 *Defensive Filing Strategy*

A defensive filing strategy is directed to own products and technologies tied to these own products. Within the defensive strategy the portfolio is only envisaging a possible protection of these products such as to be able to remove competitors from market for the patent term. Often, this strategy is backed up by thorough Freedom-to-operate studies to secure these products. In order to provide a proper basis for later-on attacks of competitors, creation of prior art is crucial. Hence, such a strategy should also envisage defensive publications and/or the filing of early published application documents such as a German utility model which is held to be public on the date of registration. Also in view of the so-called Hilmer doctrine,<sup>1</sup> filing of US Provisional Application is a necessity. This might change as the discussion within the US seems to provide a basis that the Hilmer doctrine will be abolished.<sup>2</sup> This type of strategy is often used in a

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<sup>1</sup> Under this doctrine, named after decision “In re Hilmer 359 F.2d 859 (CCPA 1966)” it makes sense to submit a first filing before the USPTO to ensure that the application becomes prior art at the priority date (and thus prevent third parties who file a patent application for the same subject matter in the meantime in the US from obtaining a patent therefore), at least in case the text of the patent application is not in English.

<sup>2</sup> See “The Munich Talks: A Global Call for Harmonization”, Under Secretary of Commerce for IP & Director for the USPTO David Kappos, [http://www.uspto.gov/news/speeches/2011/kappos\\_munich.jsp](http://www.uspto.gov/news/speeches/2011/kappos_munich.jsp).

later stage of product development if the value of a particular development is noticed.

## ***2.2 Proactive Filing Strategy***

In contrast, a proactive filing strategy is starting already in early stages of product development. A thorough analysis is performed to identify whether there are certain envisaged competitive products and whether these products use certain technologies and if there are competing technologies. Once these competitive products and the concerned technologies are identified a cluster of IPR applications are filed in order to prohibit competitors not only with respect to a particular product and a particular technologies but also to minimize the risk of competing products based on other technologies.

This typically leads to more complex portfolios having as a minimum the passive strategy while being supplemented by other aspects. This portfolios needs to be tracked in order not to spend too much money in areas which do not offer a proper protection. However, it will be hard to provide a fair estimation of avoided competition and therefore offered enhanced revenue streams. That is, the success of the proactive strategy may not be proven, which makes it sometimes hard to be communicated to business management.

There is a particular pro of this concept. That is, if a certain technology previously identified as a substitute emerges to a key technology for the product, than the proactive technology may still provide a proper basis such as to provide at least a defensive IPR portfolio for the product.

## ***2.3 Where (and Why) to File***

Having dealt with the question of what to file, the next important point is where to file and on why to file in particular states. Within this question several aspects needs to be highlighted. The most obvious point is to seek protection where products are produced or hit the market. Nevertheless, such an approach having a worldwide sold product would lead to oversized portfolios leading to high costs. Hence, one needs to identify boundary conditions.

## ***2.4 Legal Stability and Absence of Corruption***

A first boundary condition is legal stability and absence of corruption. One may not put large amounts of money in IPR prosecution in unstable legal systems. There are certain indices which may provide a basis for evaluation, namely the

Worldwide Governance Indicators published by the World Bank Group<sup>3</sup> and the Corruption Perception Index published by Transparency International.<sup>4</sup> However, there is a certain grey zone as legal systems (as well as political systems) are evolving. As such one needs to envisage future changes in legal systems. An example might be the People's Republic of China. While being renowned in the past for deficiencies in P law enforcement, and being suspected as having a certain favor for domestic parties, this air changes due to exchange programs for examiners and changes within the legal system. These projects are supported by several offices and in particular by the European patent Office.<sup>5</sup>

## 2.5 *Quality of Rulings*

Another boundary condition is the quality of rulings, i.e. whether there is an established jurisprudence having experience in IPR matters. There, one needs to identify those states which offer a certain number of new filed litigation cases per year, which can be seen as a tool to identify whether the court system is adopted to provide quality rulings since otherwise nobody would claim there.

## 2.6 *Other Boundaries*

Other boundaries pertain to certain circumstances necessitating a more broad application style. Such a circumstance may be the doctrine of exhaustion which may apply in a unitary market such as the European Union. That is, once, a product has been introduced within the economic community by a patent proprietor, it may circulate throughout the internal market irrespective of patent proprietors' IPR rights in other territories within the internal market.<sup>6</sup> This situation is of particular importance within Pharmaceuticals and leads to a necessity for companies to have their products protected in any market within the internal market. Nevertheless if a new territory enters internal market by accession to the European Union the doctrine of equivalence may be subject to different transitional rules<sup>7</sup> and a filing

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<sup>3</sup> <http://info.worldbank.org/governance/wgi/index.asp>

<sup>4</sup> [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2010](http://www.transparency.org/policy_research/surveys_indices/cpi/2010)

<sup>5</sup> [http://www.ipr2.org/index.php?option=com\\_content&view=section&layout=blog&id=12&Itemid=89](http://www.ipr2.org/index.php?option=com_content&view=section&layout=blog&id=12&Itemid=89)

<sup>6</sup> Federal Court of Justice "Bodenwaschanlage" X ZR 13/99, BGHZ 143, 268 - Karate, BGH, Urt. v. 24.09.1979 - KZR 14/78, GRUR 1980, 38, 39 - Fullplastverfahren.

<sup>7</sup> A transitional rule was part of accession act with respect to Czech Republic, Bulgaria, Estonia, Lithuania, Latvia, Slovenia, Hungary, Poland and Slovakia in 2004 respectively 2007, however no such rule was included for Cyprus and Malta.

strategy needs to envisage also these further accessions in order to have all future territories within the internal market protected.

### 3 Litigation View

Within Litigation view the focus will be on European Litigations. Both aspects will be highlighted, being a claimant and being a respondent. Although these aspects are embodied most often within a single party, it nevertheless will be examined independently.

#### 3.1 *European Patent System*

A European patent provides a unified examination and grant procedure with respect to all member states of the European Union as well as the European Economic Area (European Union + Norway + Iceland + Liechtenstein) plus Switzerland, Turkey, Albania, Monaco, Former Yugoslav Republic of Macedonia, Serbia, San Marino and by way of so-called Extension Bosnia and Herzegovina and Montenegro.<sup>8</sup> Furthermore a European patent may be registered in Hong Kong.

Once granted, a European patent needs to be validated in the individual member states such as to become effective. This validation process requires in the majority of member states that the granted European patent is translated in one of the official languages.

#### 3.2 *London Agreement on the Application of Article 65*

There is a certain relief for those having interest only in major litigation states as the London protocol removes the burden of translation in some member states.<sup>9</sup>

These member states are Germany, United Kingdom, France, Lichtenstein, Switzerland, Luxembourg, and Monaco.

Some member states to the London protocol require that only the claims are to be translated into an official language; these are Croatia, Denmark, Hungary, Iceland, Latvia, Lithuania, The Netherlands, Sweden and Slovakia.

Some of the later ones even dispense the translation requirement if the European patent has been granted in English. These dispensing states are Croatia, Denmark, Hungary, Iceland, The Netherlands and Sweden.

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<sup>8</sup> For a Map, see [http://documents.epo.org/projects/babylon/eponet.nsf/0/E65E85FAF2F200F4C125744A00294866/\\$File/epo\\_member\\_states\\_10\\_10.gif](http://documents.epo.org/projects/babylon/eponet.nsf/0/E65E85FAF2F200F4C125744A00294866/$File/epo_member_states_10_10.gif).

<sup>9</sup> For actual data, please consult <http://www.epo.org/law-practice/legal-texts/london-agreement.html>.

Compared to a plurality of national applications a European patent is more cost effective. Cost effectiveness may even increase in the near future as there seems to be a drive towards a “community” patent. This “community” patent will be a European patent validated for all member states of the European Union but Spain and Italy. According to recent documents being basis for consultation (KOM(2011) 216/3), the translation regime affords that in case of litigation, the patentee has to provide on request and to the choice of language of the respondent a complete translation whereby the language choice is restricted towards one of the official languages in which the alleged infringement took place or is domiciled. In addition a court may request a translation towards the official language which is used within the court procedure (Article 4). Additionally, it is foreseen that for a transitional period all patents needs to be translated into English if the language of procedure was German or French, and a translation of the patent as a whole towards another official language of one of the participating member states. The transitional period will last for at least 6 years and will then be reviewed (Article 6). Hence, the translation cost will be dramatically minimized as for the majority of cases only one translation will be necessary.

### 3.3 *Litigation Statistics*

Now turning to some statistics may provide another view on this issue which has significant impact, i.e. the question where today patentees are filing their infringement suits. An analysis<sup>10</sup> of this question reveals that the vast majority of litigations within the European Union (for the period 2003–2006) was handled in only a small number of states. These are Germany, United Kingdom, The Netherlands and France handling about 90% of all European patent litigations. These numbers are stable.<sup>11</sup> The majority of cases are handled by German courts based on a validated European patent while the numbers of infringement suits handled in the other countries is substantially lower. The reason for this distribution may be seen in the market size of the state itself (Germany, France, United Kingdom), the position within global trade (The Netherlands), the reliability of decisions and the legal system in general (Germany, France, United Kingdom, The Netherlands), the time to decision and availability of instruments for obtaining evidences. Most often decisions rendered in one of these states are in fact blueprints for other courts even though no court would admit so. Therefore, any litigation strategy should envisage these states.

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<sup>10</sup> [http://documents.epo.org/projects/babylon/eponet.nsf/0/2D620982152DB517C12572A700433C61/\\$File/impact\\_assessment\\_2006\\_02\\_v1\\_en.pdf](http://documents.epo.org/projects/babylon/eponet.nsf/0/2D620982152DB517C12572A700433C61/$File/impact_assessment_2006_02_v1_en.pdf)

<sup>11</sup> Data shown in the context of a European Patent Litigation Insurance show said trend, see Figure 1 on page 110 of [http://ec.europa.eu/internal\\_market/indprop/docs/patent/studies/pli\\_appendices\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/patent/studies/pli_appendices_en.pdf).

### **3.4 Court Systems**

In the following some main points within the respective legal systems will be highlighted.

#### **3.4.1 Germany**

In Germany there are 12 assigned patent litigation courts.<sup>12</sup> The majority of litigation cases (about 80%) are handled by the courts in Düsseldorf, Mannheim and Munich, whereby the order displays the respective ordering in descending manner. These courts are handling the cases by three legally qualified judges. Evidences may be obtained by means of special orders and are typically granted towards a court appointed technical expert. Typically, there is no immediate disclosure towards the claimant. The German court system is bifurcated, which means that invalidity of a claim may be responded in infringement proceedings but needs to be pursued within another specialized court, the Federal Patent Court. Infringement proceedings will stay only, if there are strongly convincing arguments towards invalidity of the patent and if an opposition (within 9 months after grant of a European patent or if another opposition is still pending) or a nullity action based on said arguments is actually filed. The Federal Patent Court handles nullity cases in separate proceedings but both courts take note of arguments made if they are made available to the court. The Federal Patent Court handles these nullity cases by two legally qualified judges and three technically qualified judges. The technically qualified judges are selected on the respective IPC classes the patent under attack bears. Within litigation and nullity, the losing party is obligated to pay the court fees as well as attorney fees within statutory limits based on a so-called value in dispute. If the claimant requests desist, it is still up to the claimant to decide when to enforce such an order, i.e. the claimant stays in control.

#### **3.4.2 United Kingdom**

The situation in the United Kingdom is rather different. There the legal system is spilt up into three territories. However, the major part of patent infringement is dealt with in England and Wales. But it is not only the territory which is split it is also the fact that there exist different paths to claim invalidity and infringement. Infringement may not only be claimed at the Patents County Court where a single judge is dealing with the claim and a possible counter-claim of invalidity but as well at the Intellectual Property Office if the parties agree to do so. Both patent court and Intellectual Property Office may transfer a case towards

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<sup>12</sup> Düsseldorf, München, Mannheim, Berlin, Braunschweig, Erfurt, Frankfurt, Hamburg, Leipzig, Nürnberg, Magdeburg und Saarbrücken.

the Patents Court. It should be noted that the system necessitates barristers and solicitors and a patent attorney as technical expert thereby being extremely expensive. A pro to file a claim in England and Wales may be the availability of Anton Piller orders also known as search orders, by which a bailiff and a technical expert may take evidences. Depending on your claim language, e.g. if your claim pertains to “isolated gene sequences”, it may no good idea to file a suite in the UK as a recent decision denied infringement if no isolated gene sequence is found in the alleged infringing product as sold. As there is a need within some of the above mentioned paths to have barristers being instructed by solicitors these proceedings very often get extremely expensive. It should also be noted that once enforcement is decided, the execution of the decision is out of claimant’s control, which might be negative if one is about to achieve a settlement but still needs some time for finalization.

### 3.4.3 France

In France in the past there had been seven assigned courts dealing with patent infringement. Nowadays all cases are handled by the tribunaux de grande instance in Paris having 4 sections. There, three legally qualified judges are dealing the case. The court may appoint a technical expert. Before the Enforcement Directive of the European Union (Directive 2004/48/EC<sup>13</sup>) was put into practice France was often chosen as venue as it allowed for an instrument known as “saisie contrefaçon” which in fact is comparable to an Anton Piller order. This is a typical pre-trial instrument which is used in about 80% of cases. Once allowed, the claimant may even enter the respondent’s premises. A saisie contrefaçon may even be obtained in respect of pending applications. After the actual “saisie” the claimant has up to 20 working days respectively 31 calendar days whichever period last longer, to start infringement proceedings. So one needs to be rather specific on the type of information and one needs a very detailed knowledge where to search and should even then be prepared to start infringement proceedings rather quick.

### 3.4.4 The Netherlands

All patent litigations are handled by the district court in The Hague. There three legally qualified judges are dealing the case. The court may appoint technical experts. Nullity of a patent may be counterclaimed or claimed in defense. A specialty is accelerated proceeding, i.e. proceedings which typically last only 10–12 months. Within this accelerated regime the ping-pong of responses sent is strictly limited in time and number. Accelerated proceedings may be

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<sup>13</sup> [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0048R\(01\):EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0048R(01):EN:NOT)

“downgraded” to normal proceedings, but normal proceedings may not be “upgraded”. The Hague is again an interesting venue for cross-border litigations, as a recent referral<sup>14</sup> shows. The litigation costs compared to the size of market are relatively high.

### ***3.5 Cost Dimension***

Costs in relation to the respective market are relatively high in The United Kingdom and The Netherlands. Costs in relation to the respective market are in average relatively low in Germany.

According to a study prepared by the EPO in the course of discussion relating to the unfinished EPLA, the minimum costs of a small to medium-scale patent case at the second instance handled in the UK was about 150 T€ while the minimum cost in Germany was about 50 T€. At the same time the study indicated minimum costs of only 50 T€ for France and 60 T€ for The Netherlands. At the same time the maximum costs of the same small to medium-scale patent case was given to be 1500 T€ for a case handled in the United Kingdom and about 200 T€ for Germany, France and The Netherlands.

The minimum costs of a small to medium-scale patent case at the second instance handled in the UK was about 150 T€ while the minimum cost in Germany was about 90 T€. At the same time the study indicated minimum costs of only 40 T€ for France and The Netherlands. At the same time the maximum costs of the same small to medium-scale patent case was given to be 1000 T€ for a case handled in the United Kingdom and below 200 T€ for Germany, France and The Netherlands. Hence, compared to the market size the costs are quite low in Germany and the bandwidth is rather low providing a good cost estimate.

### ***3.6 Claimant's Situation***

Now turning back to actual litigation, at first we will assume the situation of a claimant. As a first point any claimant should check whether he believes that the IPR to be used is held valid.

For this reason, it is highly recommended to check all file histories within a given family and to compare all arguments as to whether documents cited in one legal system are valid prior art in another legal system. Beware of counter-part applications which might be unpublished but nevertheless be held as prior art at least for novelty attacks. State of the art definitions are sometimes different with respect to different types of IPR, e.g. the state of the art definition with respect to a

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<sup>14</sup> C-616/10, Solvay vs Honeywell, referral of a question by the ditict court of The Hague, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:089:0009:0009:DE:PDF>.

utility model in Germany is different to the state of the art definition with respect to a European or German patent.

### 3.6.1 Customization

Check whether there are still applications pending and whether these applications can be customized towards respondent's infringing acts. Customization may be achieved in several ways.

### 3.6.2 Divisional Applications

First of all, check whether there is still the possibility to file divisional European patent applications. A pending application in the background may also allow for customization later-on, once a respondent argues in a manner that a certain infringing act is not happening because ..... Beware of the deadlines set out in Rule 36 EPC which are 24 months after the first communication under Article 94(3) EPC (i.e. an Examination Report) or Rule 71 EPC (e.g. Intention to grant) issued or 24 months if an objection is raised with respect to a particular lack of unity for the first time (Article 82 EPC).<sup>15</sup> Also if there are national applications pending, check whether it is still possible to file divisional applications.

### 3.6.3 Utility Models

Another possibility to customize IPR is to branch of utility models. Utility models by means of a branch of may be attained in Germany, Austria, Hungary and Czech Republic.

German utility models may not be directed towards methods, however, the Federal Court of Justice ruled in 2005 in decision "Arzneimittelgebrauchsmuster" (BGH X ZB 7/03) that a utility may be registered also for the use of a known substance within a second medical use.

In Austria, method claims are not excluded from patentability. Also, an Austrian utility model may claim surgical or therapeutical treatment of animal bodies while the same would be exempted within patents.

Hungary to the contrary requires that a utility model can only be granted for a form, structure or arrangement of components.

Czech utility models are not granted for methods.

Note, there exist different deadlines for branching of in every concerned member state and the calculation of deadlines is sometimes a mix of European and national deadlines. Even though one would at first think that a deadline lapsed,

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<sup>15</sup> <http://www.epo.org/law-practice/legal-texts/html/epc/2010/e/r36.html>

it might happen that the filing of an opposition against a European patent reopens the deadline for filing utility models. Thereby, the situation might get tricky for the claimant as well as for the respondent. Suppose that the deadline for branching off has lapsed but the deadline for filing an opposition against the European patent is still running. Then the patentee may either choose to wait until the deadline for filing an opposition lapses before filing an infringement proceeding and thereby forcing the respondent to invalidate a granted European patent in several member states. This will bind resources, both in personnel as well as in respect to money. On the other hand, filing a claim early may trigger an opposition and reopen certain branching off periods which (as long as the term of a utility models is not lapsed) may be used by the patentee to customize utility models even in view of the responses given by the respondent.

This may be of particular relevance if prior art of the patentee is cited which would qualify for a 6 months grace period which is available with utility model regime. Also the national utility model provisions may exempt certain types of prior art, e.g. presentations abroad. Hence, utility models may turn into the only available instrument to attain IPR.

### **3.7 Respondent's Situation**

Switching now to the respondents view. As a respondent one of the first steps is the evaluation of the claim and thereafter the evaluation of possibilities to get rid of an IPR by filing an opposition or a nullity. Knowing the prior art, it is necessary to evaluate whether the patentee may be brought into a better position by filing opposition. In that case, even though the costs for prosecution of nullity claims in several member states may be expensive, it may be worth the money if otherwise the patentee may be able to file customized utility mode or utility models may not subject to the prior art. In this connection it is recalled that decisions rendered in one jurisdiction often are blueprints for other jurisdictions.

But infringement is only one possibility to be active. Another is the continuous observation of competitors' portfolios and the attack via oppositions. Note, as oppositions are seen as grant related and as the opponent has to bear its own costs, oppositions are very often used to get patents revoked as early as possible to clear out any problematic IPR within a given field. With respect to nullity suits, there a certain cost risk is still given, as most jurisdictions stick to some sort of apportionment of costs to be borne by the losing party.

Again, an opponent-to-be or claimant to-be should consider whether an attack may reopen branching off possibilities thereby jeopardizing the effect intended to achieve and whether an action filed is not waking a dog which otherwise would have kept sleeping.

## 4 Multiparty View

Having identified several aspects within filing and litigation, it should be noted that all these aspects are mutually interrelated. It becomes even more tricky to find a good strategy if the situation of competitors is more complex.

Suppose the following situation, as a patentee a product P being based on a technology A and B is produced and subject to patent protection. A first competitor C1 has a competing product CP1 based on technology A and C while a second competitor has another competing product CP2 based on technologies B and C. In this situation prospective business data needs to be added to the picture to find out what it would mean if a certain technology comes under attack, i.e. weakening one competitor by attacking might impact another competitor by allowing the usage of a certain technology without fearing to be blocked or having to pay royalties. This may endanger the commercial success more than having the IPR around and seeking a settlement by means of a free license.

Hence, within multilateral situations, choosing the right strategy becomes more and more complex. These aspects should be taken into account in the beginning and needs to be reevaluated regularly. It is highly recommended to discuss any aspect not only within a patent department but to also share your thoughts with your outside counsels.

## 5 Summary

Active and passive strategies for filing have been highlighted. Several aspects impacting filing strategies such as legal stability, jurisprudence and cost effectiveness as well doctrine of exhaustion has been touched. Possible strategies for a claimant have been highlighted as well as a respondent's view was shown. As stated in the beginning, these viewpoints are depending on each other and in real life most claimants will become respondents and therefore will face like problems. Hence, starting litigation actions should be embedded in a plot envisaging counter actions to happen and to define an escalation strategy. Nevertheless, it should be emphasized that it is always easy to start actions but you should be aware and prepared to stop actions as well.