

Shifting attitudes to injunctions in patent cases

Final injunctions for successful parties in patent cases in Europe have generally been seen as automatic. But, as **Stephen Bennett, Stanislas Roux-Vaillard** and **Christian Mammen** explain, attitudes are evolving

1 MINUTE READ

Despite their differing common law and civil law systems, courts in the UK and continental Europe have tended to grant injunctions to successful patent owners after a trial as a matter of course. However, this position has come under pressure thanks to arguments advanced by defendants, notably in cases where the enforced patent covers only a small part of the infringing device. In the United States, following the *eBay* decision and subsequent case law, injunctions are no longer viewed as automatic and in fact have become rarer. Now, thanks to a recent Supreme Court case, the UK courts may be heading in a similar direction. Are automatic injunctions now under threat? The question may end up being addressed by the new Unified Patent Court, and there has already been considerable debate about judges' discretion to grant injunctions in this planned forum.

Until relatively recently, the question of whether a final injunction should be granted to a patentee who has succeeded at trial has not really troubled the courts of Europe. Although the Continental European civil law systems and the common law systems have approached the issue from different starting points, the outcome has been overwhelmingly the same: injunctions are granted to successful patentees at the end of trial as a matter of course.

Things are changing and the issue has been receiving a greater degree of interest in recent times. This has arisen because of arguments made by defendants in (predominantly) cases concerning patents for multi-function devices (mobile phones). At the same time, the question of the grant of final injunctions has become a hotly debated topic in preparations for the new European patent litigation system – the Unified Patent Court (UPC).

This increasing debate about the issue of final injunctions has caused interested parties to look at the situation in the United States, where there is considerably more development through case law and where the approach looks different to that taken in Europe. This article looks at where things stand in European common law and key civil law jurisdictions, contrasts that with the United States, and asks where things are heading in relation to the grant of final injunctions in the UPC.

The Enforcement Directive (2004/48/EC) applies in all the EU's member states. It deals (among other things) with remedies for patent infringement. Of particular relevance on the question of the grant of injunctions is Article 3 (see below 2) and its requirement that remedies be not only effective and dissuasive but also "proportionate". As an EU Directive, the member states are required to give it effect by enacting any national

legislation necessary to bring them into line with its requirements. The member states have, in essence, taken the view that they already comply with Article 3. English courts have referred to the directive and the issue of proportionality in considering the grant of injunctions (for example in *HTC v Nokia* [2013] EWHC 3778 (Pat) and *Vestergaard v Bestnet* [2011] EWCA Civ 424). Other courts in Europe tend not to go through this exercise – at least in the reasons for their decisions.

Whether the practice of national courts on the grant of injunctions for patent infringement in Europe does in fact comply with the requirement for proportionality has yet to be seriously tested. Further, the issue of injunctions in patent cases may be ripe for a referral to the Court of Justice of the EU when (as discussed below) many courts treat the grant of an injunction as, effectively, an automatic right of the successful patent owner without any apparent consideration of whether an injunction is a proportionate remedy.

Current position in the UK

The starting point in English law is that injunctions are equitable remedies. Assessment of whether an injunction should be granted ought therefore to be an exercise in the court using its discretion to obtain an equitable outcome. The court also has the express ability to use its discretion to award damages in lieu of an injunction. What has happened in practice is that case law has severely limited that discretion such that it is challenging to find any patent case in which a final injunction has not been granted when the right has been found valid and infringed.

In fact, whether a final injunction should be granted is very rarely argued at all in patent cases. This may not be surprising in light of the hurdles set in the decision that has been the leading case on the issue since 1895 (*Shelfer v City of London Electric Lighting Company* [1895] 1 Ch 287). The scarcity of case law in relation to final injunctions in IP cases is illustrated by the fact that the leading case cited in IP cases is *Shelfer* and that case relates to issues concerning real property.

The test in *Shelfer* (see box), has, nonetheless, been applied in just about all IP final injunction debates since 1895. It does appear, however, that there may be imminent changes under English law. The question of final injunctions was reviewed by the UK Supreme Court in February 2014 in another case involving real property (*Coventry v Lawrence* [2012] EWCA Civ 26).

The view from the Supreme Court in *Coventry v Lawrence* is that the four-stage test in *Shelfer* needs to be looked at afresh. Perhaps the most outspoken of the justices who considered this issue was Lord Sumption when he wrote: “In my view, the decision in *Shelfer* is out of date, and it is unfortunate that it has been followed so recently and so slavishly ... The whole jurisprudence in this area will need one day to be reviewed in this court.” Lord Sumption also wrote: “The ordinary principle is that the court does not grant an injunction in a case where there is an adequate legal remedy. In particular, it does not do so where damages would be an adequate remedy.” Having raised the issue, the Supreme Court has not proposed an alternative to the four-step test applied from the *Shelfer* case (because the question about the grant of the final injunction was not fully argued before it).

“Harmonisation” of the position in Europe (part 1)

Article 3(1): Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

Article 3(2): Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

By giving a general direction that a more flexible approach should be taken, the Supreme Court is leaving it to the lower courts to work out the detail of what any new test should be for the grant of a final injunction. Since the Supreme Court’s decision in *Coventry v Lawrence* on February 26 2014 there has been a limited amount of activity in the lower courts on the question of final injunctions but no new test has yet emerged.

The UK, it seems, is now at a crossroads with a clear mandate from the Supreme Court to the lower courts to look again at the question of granting injunctions and an emphasis on the issue of whether damages are an adequate remedy. It remains to be seen whether the English courts will look to the US case law for inspiration on this issue.

The approach in key European civil law jurisdictions

European civil law jurisdictions have no legally unified approach to granting final injunctions. Nevertheless, there seems to be a common understanding of final injunctions in these jurisdictions and France is a good example for illustrating the civil law view on this.

The starting point in France is codified in Articles L 613-3 and L 613-4 of the French Intellectual Property Code (IPC) which lists all the acts which “are prohibited, absent the consent of the patent holder”.

In a similar way, Article 28 of the TRIPs Agreement (Annex to the WTO Marrakech Agreement signed on April 15 1994) state that a patent confers “the right ... to prevent third parties not having the owner’s consent” from performing certain acts.

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Shelfer v City of London Electric Lighting Company [1895]

Lord Justice Smith observed that it was “a good working rule” that:

- 1) If the injury to the plaintiff’s legal rights is small,
- 2) And is one which is capable of being estimated in money,
- 3) And is one which can be adequately compensated by a small money payment,
- 4) And the case is one in which it would be oppressive to the defendant to grant an injunction: – then damages in substitution for an injunction may be given

This ability of the patent holder to exclude others from performing specific acts is understood as the statutory provision binding the court to grant final injunctive relief when asked to do so by the patent holder. In this respect, the principle of proportionality will not systematically come into play for a court assessing the granting of a final injunction pursuant to Article L 613-3 or L 613-4 IPC. In practice, it is worth noting that defendants in patent cases have very rarely argued whether a final injunction should be granted.

The French approach appears to be similar to that followed in many civil law countries in Europe (for example, Spain, Italy, the Netherlands and Germany) which all implemented (or considered that minimum requirements were already met nationally) Article 11 of the Enforcement Directive ensuring that a finding of infringement may lead to an injunction against an infringer.

At the same time, these civil law countries decided that as regards patent law there was no need to make use of the option conferred by Article 12 of the Enforcement Directive to implement a proportionality requirement into their national laws.

This however, does not mean that a final injunction will always be granted upon a finding of infringement as limits to the power of the court in granting such an injunction may be found both at the European and at the national levels.

At the European level, the Enforcement Directive itself allows for restrictions of the court’s power to grant final injunctions (see notably Recital 24 and Article 3 (2)). It appears that the abuse of law principle (generally shared by civil law countries) and the EU principle that entails eliminating distortions of competition (see Articles 101 and 102 TFEU) are such restrictions.

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At the national level in France, it is also clear that where codified patent law enacts limitations to patent rights, such statutory limitations are a basis for a court not to grant a final injunction. In this respect, French patent law does allow for situations of compulsory or forced licences (even if applications of such provisions are extremely scarce) and where a third party would be held by a court to be eligible to receive such a licence, there would be no room for the granting of a final injunction.

Other factual situations raising the specific issue of the proportionality of a final injunction, such as situations where a patent covers only a small fraction of the many patented technologies in a single device but the injunction would be sought for the whole device, could be taken into account. However, the lack of decisions by French courts over such circumstances makes the statutory grounds for such a discussion uncertain.

CJEU decisions on contractual defences to infringement, as well as European and national general policy issue relating to the enforcement of patents, may soon give more legal grounds for civil law judges in Europe to discuss the appropriateness of granting a final injunction in patent cases.

The US approach

The statute authorising the grant of injunctions in patent cases, 35 USC § 283, provides that the courts “may grant injunctions in accordance with the principles of equity ...” Despite this permissive wording, for several decades before 2006, courts would grant an injunction more or less automatically when a patent was adjudged to be infringed (and not invalid). For example, in *Richardson v Suzuki Motor Co, Ltd*, 868 F2d 1226, 1247 (Fed Cir 1989) the Court said: “It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.” In 2006, however, the US Supreme Court ruled, in *eBay v MercExchange*, 547 US 388 (2006), that the granting of injunctions in patent cases must be determined in accordance with the same traditional four-factor test that was used by courts generally when exercising equitable powers. Specifically, a plaintiff seeking an injunction must show that:

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

Justice Kennedy, writing in a concurring opinion, expressed the view that requiring application of the four-factor test would limit the ability of non-practising entities (what have come to be referred to colloquially as patent trolls) to demand that operating companies pay exorbitant licensing fees or risk being shut down by a permanent injunction, without regard to the incremental importance of the patented technology to the infringing product as a whole. The *eBay* decision had a major impact on patent litigation in the United States, essentially limiting injunctions to disputes between competitors, where the patentee offered products in the same market as the infringing products.

Less than a decade later, courts in the United States have further narrowed the availability of injunctions, holding that the requirement of irreparable injury also entails showing “that a sufficiently strong causal nexus relates the alleged harm to the alleged infringement” (*Malibu Boats, LLC v Nautique Boat Co, Inc*, 997 F Supp 2d 866, 885 (ED Tenn 2014)). In other words, even between competitors, it is no longer enough that the patentee suffers irreparable harm due to the marketing of a product that contains the patented feature – the patentee must now prove that the harm it suffered was *because* the infringing product contained the patented feature.

This additional requirement was added in response to courts’ recognition of the complex combinations of technologies that are often incorporated into modern products, particularly those in the consumer electronics industry. For example, if a patent covers feature *abc*, and the defendant’s product X incorporates *abc* as one of dozens of product features, the nexus test requires courts to determine whether it would be fair and equitable to enjoin the defendant from all sales of product X, regardless of whether it is feature *abc* or some other, unpatented, feature *pdq*, that drives consumer demand and causes the defendant’s product to take market share from the patentee’s product. This additional requirement is still fairly new, and courts have not yet fully addressed whether the nexus test is truly part of the *eBay* four-factor test, or could readily be satisfied by issuing narrower injunctions – for example, prohibiting the sale of “product X

“Harmonisation” of the position in Europe (part 2)

Article 11: Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement.

Article 12: Member States may provide that, in appropriate cases and at the request of the person liable to be subject to the measures provided for in this section, the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in this section if that person acted unintentionally and without negligence, if execution of the measures in question would cause him/her disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory.

which incorporates the *abc* feature” rather than merely prohibiting the sale of “product X”.

In sum, less than a decade ago, the United States followed the same general approach as Europe, granting injunctive remedies for patent infringement as a matter of course. However, in response to two factors, strategic litigation behaviour by some patentees and the increasing complexity of many modern products, the United States has now taken two steps in the direction



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The UPC Agreement and rules

Against this background, the wording of the agreement for the intended UPC includes language that may be suggestive of a changed approach in Europe. Article 63(1) provides: "Where a decision is taken finding an infringement of a patent, the Court may grant an injunction against the infringer aimed at prohibiting the continuation of the infringement..."

Reading of this provision in isolation, it would appear that the word "may" is used to indicate that the grant of an injunction will see the new court exercising discretion and weighing up various competing factors. There are, however, conflicting views about how this provision could be read. An alternative reading is simply that Article 63 is conferring upon the UPC the power to grant injunctions and says nothing about how that power should be exercised. One of the arguments in favour of this view is the text of Article 62 dealing with provisional and protective measures (in this context, preliminary injunctions pending trial). Article 62(1) also provides that the court "may" grant injunctions pending trial. However, it then goes on in Article 62(2) to state that "the Court shall have the discretion to weigh up the interests of the parties...". There is, by way of contrast, no wording in Article 63 dealing with weighing up the interests of the parties. This provides the basis for an argument that the weighing up of interests only applies in the case of preliminary injunctions.

The opposing argument is the provisions in relation to the award of damages (Article 68) which says that the court "shall" order the payment of damages where infringement has been found suggesting that the use of the term "may" in Article 63 vests the courts with discretion.

As the UPC has yet to come into effect, there are not yet any decisions indicating what the correct interpretation will be. However, there has already been some early skirmishing in relation to the settling of the draft rules of procedure for the new court. The current version of the draft rules is version 17. The controversy about injunctions in this current version arises from what it omits. The 16th version of the rules carried the following language as Rule 118.2:

Without prejudice to the general discretion provided for in Articles 63 and 64 of the Agreement, in appropriate cases and at the request of the party liable to the orders and measures provided for in paragraph 1 the Court may order damages or compensation to be paid to the injured party instead of applying the orders and measures if that person acted unintentionally and without negligence, if execution of the orders and the measures would cause such party disproportionate harm and if damages or compensation to the injured party appeared to the court to be reasonably satisfactory.

This language was removed in the 17th version.

At the consultation meeting on the 17th version of the rules on November 26 2014 in Trier, Germany, the deletion of this sub-rule sparked considerable debate. The official explanation from the rule drafters provided a table showing changes with explanatory remarks. In essence, the explanation was that the original wording related to an optional provision in the Enforcement Directive (Article 12). However, the note went on further to give an indication of how those drafting the rules think the new court should deal with injunctions stating that "where the Court finds an infringement of a patent it will under Article 63 of the Agreement give order [sic] of injunctive relief. Only under very exceptional circumstances it will [sic] use its discretion and not give such an order".

This seems to be statement that a US-style balancing approach is not favoured by the rules committee. It does, however, acknowledge that there is discretion. What no-one knows at this stage is what value these statements of the drafting committee will have when cases are being litigated nor, in fact, whether this is the last word from the committee on this provision. It is clear, however, that this issue will be a key battleground when the court opens for business.

of being significantly more restrictive in the granting of injunctions. American courts have implemented these changes through the application of principles of equity, as derived from the English common-law system. Although European courts (including those in the United Kingdom) at present show little inclination to follow suit, and the structure of the civil law system may make it more difficult to do so, the underlying policy issues – patent hold-up and patent thickets – apply to some extent in European markets as well.

The United States has now taken two steps in the direction of being significantly more restrictive in the granting of injunctions.

An evolving story

There is a clear divergence in practice between the US and Europe (civil and common law systems) on the grant of final injunctions in patent cases. The UK may soon find itself with a new test but the rest of Europe seems to be settled on its current practice of injunctions being granted as of right. The story is, however, evolving and there are likely to be further developments in the UPC debate on this issue.



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