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THE OBLIGATION TO RECALL PRODUCTS AS PART OF INJUNCTIVE RELIEF

Explanatory note on the decisions of the German Federal Court of Justice (decision of Oct. 11, 2017, docket no. I ZB 96/16 - products for wound treatment) and the Higher Regional Court of Dusseldorf (decision of Sep. 21, 2017, docket no. I-2 W 4/17).

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The first senate of the Federal Court of Justice recently confirmed in several decisions that an obligation to cease and desist can also include the obligation to actively rectify the illegal situation and to even recall sold products (cf. Federal Court of Justice, decision of Oct. 11, 2017, docket no. I ZB 96/16 - products for wound treatment), irrespective of whether the obligation to cease and desist follows from a voluntary cease-and-desist-declaration (with penalty clause) or an injunction.

The Higher Regional Court of Dusseldorf confirmed this case law also for patent matters (cf. decision of Sep. 21, 2017, docket no. I-2 W 4/17). This case law will however lead to additional challenges and unpleasant financial risks for both parties in patent litigation, as a possible recall obligation based on a cease and desist requirement will depend on whether the distribution of the infringing products by a third party must be considered to be a continuation of patent infringement by the infringer itself. The answer of this question will in many cases be deferred into the enforcement proceedings, as the scope of the cease and desist obligation is usually not discussed in the infringement proceedings on the merits.

SCOPE OF A CEASE AND DESIST OBLIGATION

As a basic rule, a cease and desist obligation leads to a passive obligation to tolerate, which means that the patent infringer is not allowed to continue the patent infringing acts of use, e.g. to continue sales of the patent infringing products. If the patentee wants to enforce an additional recall of such products from the market, he has a statutory claim for recall pursuant to sec. 140a, para. 3 German Patents Act. These claims are normally separately requested and granted by the court.

This means with respect to a possible preliminary enforcement of a non-binding decision that the patentee must provide a security for the enforcement of the injunction as well as for the recall of products if the patentee wants to enforce not only the cease and desist obligation, but also the product recall. This intentional decision pro/con an enforcement of the claim for product recall has a particular relevance if, in penalty proceedings, it must be decided whether the infringer complies with its obligations according to the decision, or in case of a possible claim for damages (based on sec. 717, para.

2 or sec. 945 German Civil Procedure Act) because of a later revocation of the earlier decision.

The clear distinction between the cease and desist obligation and the claim for product recall however cannot be upheld if the infringer can only fulfill its cease and desist obligation by also actively rectifying the illegal situation. This is necessary in cases of a permanent infringing act of use, as the illegal situation would remain if the infringer were only to refrain from further infringing acts of use, but did not take any effort to actively rectify the illegal situation. Therefore, activeness has been considered to be necessary in case of an illegal application of a trademark or usage of a company name on an internet platform as well as in cases of an unfair mounting of a company label or an unfair usage of a mark on a facade painting. Also in other civil law cases it has been recognized that a cease and desist obligation may include an active operation if otherwise a legal situation cannot be accomplished. Therefore, an obligation to tolerate plastering works also contains the obligation to allow access to the inner courtyard by opening the respective door (Federal Court of Justice, decision of Jan. 25, 2007, docket no. I ZB 58/06).

CEASE AND DESIST BY PRODUCT RECALL

Based on this case law, the first senate of the Federal Court of Justice, which is responsible for trademark- and unfair competition matters, confirmed in 2015 and 2016 that also besides those permanent acts of use an obligation to recall infringing products can follow directly from an injunction. The Federal Court of Justice is of the opinion that in cases in which the infringing products were already sold by the infringer and in which it must be assumed that the customer will further distribute those products, the infringer is already required to recall the products from its customers based on the cease and desist obligation. This is the case if the further distribution by the customer is also economically advantageous for the infringer. If, in such a case, the infringer refrained from a recall, this would be equal to a continuation of the infringement by the infringer itself.

An obligation to recall which follows from a cease and desist obligation exists irrespective of whether

such a need for an action is explicitly included in the operative part of the decision; it must rather be decided by interpreting the decision. A cease and desist obligation including a recall as well as the statutory claim for a recall based on sec. 140a, para. 3 German Patents Act exist in parallel in those cases, which is why the patentees can choose which of these claims they are going to enforce.

The requirements which exist with respect to the seriousness of a recall obligation are the same irrespective of whether the recall obligation follows from sec. 140a German Patents Act or from the cease and desist obligation. This means that the infringer, also in the context of a cease and desist obligation, must, as far as legally and actually possible, seriously request the customer to return the infringing products and must also reimburse the costs which arise from such a return. However, the recall obligation based on an injunction cannot go further than the legal claim for a recall based on sec. 140a German Patents Act does.

An obligation to recall shall not exist if a recall is obviously not successful. Therefore, a penalty will not be handed out if the customer is not willing to comply with the recall request by the infringer. For that reason, the Higher Regional Court of Dusseldorf decided in the decision described in more detail below that a penalty cannot be handed out, as the addressee of the recall request in this case was not willing to delete the listing from the so called "Lauer-Taxe" (which is an index for pharmaceutical products) which was in principle necessary in order to comply with the injunction. It was therefore not harmful that the infringer first sent an insufficient recall request and afterwards a recall request which was belated.

This case law is not only applicable in infringement proceedings on the merits, but also in preliminary injunction proceedings (Federal Court of Justice, judgment of May 5, 2017, docket no. I ZR 208/15 - air dehumidifier). As a preliminary injunction shall not prejudice proceedings on the merits, a recall obligation based on a preliminary injunction only requires the infringer to request its customers to hold on further distribution of the infringing products in view of the preliminary injunction. Such a measurement is not disproportionate according to

the opinion of the Federal Court of Justice, as the infringer would be in any way required to inform the customers that they may also be subject to a preliminary injunction in case they continue sales, because of its contractual relationship with the customer (Federal Court of Justice, decision of Oct. 11, 2017, docket no. I ZB 96/16 - products for wound treatment). As far as the disproportionality of the recall was not subject of the main proceedings, it can be evaluated during the enforcement proceedings.

APPLICABILITY IN PATENT MATTERS

These decisions were confirmed by the Higher Regional Court of Dusseldorf also for patent matters. The decision decided by the Higher Regional Court addressed a listing of a patent infringing product listed in the "Lauer-Taxe". The cease and desist from offering the patent infringing product (a listing in the Lauer Taxe must be considered to be an offer pursuant to sec. 9 no. 1 German Patents Act) could be accomplished, besides by stopping any further offer, only by deleting the listing of the product from the Lauer Taxe. For the deletion from the Lauer Taxe, the patent infringer had to seriously request the responsible entity to execute the respective deletion. Insofar, the Higher Regional Court explicitly referred to the case law of the Federal Court of Justice as presented above.

Although further case law in patent matters does not exist until now and although the tenth senate of the Federal Court of Justice (which is responsible for patent matters) have not yet commented on that case law, the decision of the Higher Regional Court of Dusseldorf implies that this case law will also be applied in patent matters for the time being. This should also apply to the enforcement of patent-based injunctions, as the first senate of the Federal Court of Justice is also responsible for enforcement matters, also if these relate to patent matters.

PRACTICAL IMPLICATIONS

These recent developments in the case law have essential implications for patentees as well as for those who have been attacked because of an alleged patent infringement. Even if only an injunction is enforced or if only a cease and desist declaration is

given, it is questionable for both sides whether and to which extent such cease and desist obligation also includes an obligation to recall the products from the customers.

If one strictly applies the case law of the first senate of the Federal Court of Justice, all products which are intended for further distribution must be recalled already based on the cease and desist obligation. This should especially apply if the infringer tried to avoid the cease and desist obligation by a targeted sell-off of the infringing products. The further distribution should be always economically advantageous for the infringer, as the infringer generates profit from the sales to its customers.

With respect to the enforcement of a cease and desist obligation, this would implicate the following: On the one hand, the infringers will risk a penalty also if they refrain from any further acts of use, but do not actively recall the products from their customers. On the other hand, the patentee will risk a claim for damages also for products which were recalled based (only) on a cease and desist obligation if it later turns out that a patent infringement does not exist.

In case of doubts with respect to the scope of the cease and desist obligation and in order to avoid the above mentioned risks, one could try to avoid these uncertainties by explicit declarations of the parties. If the patentee does not clarify by itself whether it sees a recall obligation as part of the cease and desist declaration, the infringer can ask for such a declaration (the infringer does however not have any claim for such a declaration). If the patentee excludes a recall from the enforcement of the cease and desist obligation, a later request for a penalty based on a lacking recall can be opposed based on an objection out of sec. 242 German Civil Code (good faith). If the infringer however recalled the products irrespective of the exclusion of the recall obligation from the enforcement, a later claim for damages, which would basically result from an enforcement of a later revoked decision, would not exist with respect to the damages resulting from the recall, as, insofar, an "enforcement pressure" (which is necessary for this damages claim) would not exist (cf. Federal Court of Justice, judgment of Dec. 16, 2010, docket no. Xa 66/10 - steroid loaded grains).

If the decision or the enforcement request of the patentee do not contain any explicit notes, the infringer can, as already described, try to seek clarification from the patentee whether it also wants to enforce the recall obligation which is (maybe) part of the cease and desist obligation. If a clarification cannot be achieved, the infringer may clarify itself whether it thinks/does not think that the cease and desist obligation also includes a recall obligation. If the infringer however errs with respect to the scope of the cease and desist obligation, the consequences of this error must always be borne by the infringer. If based on an objective perspective a recall obligation exists, which the infringer does not carry out, the infringer may be subject to a penalty request. If the

infringer recalls the products although it was objectively not required in the context of the cease and desist declaration, the infringer cannot claim for damages afterwards (cf. Higher Regional Court of Munich, judgement of Nov. 12, 2003, docket no. 7 U 3739/03).

Altogether, this line of case law implies unpleasant financial risks and legal uncertainties for both sides which cannot be completely excluded at the moment. If a cease and desist obligation is enforced and if the products are further distributed in the market by a third party, the infringer will be normally required to recall these products already because of the cease and desist obligation.

In case you have any questions, please do not hesitate to contact us.



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