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Patent Infringement in Germany - 10 years' liability for infringer's profits

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DE – Decision of the German Supreme Court dated 26 March 2019, docket no. X ZR 109/16 – Electronic Power Supply System

I. Introduction

On 26 March 2019, the German Supreme Court held that an infringer of a German patent is under the legal obligation to surrender to the patentee the profits generated with such infringement for a period up to 10 years after the infringing act occurred. This obligation originates from § 141 Sentence 2 German Patent Act in conjunction with § 852 German Civil Code and applies even though the actual damage claims for patent infringement already became time-barred. Consequently, the infringer must render accounts about such profits for a period of 10 years, whereby such accounting obligation comprises, inter alia, the disclosure of manufacturing costs.

II. Facts and findings of the case

In the end of 2010, the patentee took legal action before the Mannheim District Court based on an alleged infringement of the German national part of EP 0 881 145 B1. The date of publication of the mention of the grant of the patent is 26 November 2003. The patent in dispute relates to electrical power supply devices used in aircraft seats (so called "110 V-In-Seat-Supply-Systems"). The core of the invention is a plug detector that detects the presence of two contact pins in the aircraft seat's socket wherein the power supply system only supplies voltage to the socket under the condition that the presence of the two contact pins of the plug is detected simultaneously by the plug detector. Such 110 V-In-Seat-Supply-Systems as claimed by the patent in dispute are part of a specification for aircraft seats that was released by Airbus in 2003. Only two companies offered these 110 V-In-Seat-Supply-Systems to the market, namely the defendant and the patentee's licensee. The patentee's business is the maintenance of aircrafts.

III. Legal Framework

The established German legal concept for the calculation of damages in case of a patent infringement provides that the patentee may calculate his damage claim by choosing one of the following three calculation methods: (1) own lost profits, (2) license analogy/reasonable royalty, or (3) surrender of infringer's profits.

These three calculation methods vary significantly in respect of their practical importance. The first calculation method "lost profits" is rarely used in practise and only few

decisions exist in this regard. This is due to the fact that the patentee must, firstly, disclose his pricing calculation in order to substantiate his damage claim, which most patentees are reluctant to do. Secondly, every patentee bears the burden of proof that he would have sold his own products if the accused products had not been on the market. This is a very high hurdle under German case law, which is in practice only met in markets with very few market players.

The second calculation method "license analogy/reasonable royalty" was the most important way to calculate damages in the past, but lost its pole position to the third calculation method "surrender of infringer's profits". This method became very attractive with a decision of the German Supreme Court issued on 2 November 2000 (case no.: I ZR 246/98 – Gemeinkostenanteil). In this decision, the Supreme Court defined "profits" in a very unique way and held that the infringer is not allowed to deduct the general overhead costs from the turnover generated with the accused products, but only those costs which may be directly allocated to the accused products. This approach is very favorable for patent owners and merely watered down by the fact that the infringer must surrender only such "profits" that are generated with the infringement. Thus, the importance of the patented invention for the customers' purchasing decision of the accused products must be factored in (game-changing invention vs. minor improvement). Nevertheless, in a nutshell, this third calculation method in most cases yields results that are far higher than a reasonable royalty.

This is the background of the recent decision "Electronic Power Supply System" of the German Supreme Court (X ZR 109/16). Here, the defendant was found guilty of patent infringement but successfully made the argument that all damage claims prior to 1 January 2007 had already become time-barred in 2010 when the patentee took legal action before the District Court Mannheim.

Pursuant to § 141 Sentence 1 German Patent Act in conjunction with § 195 German Civil Code, all claims for patent infringement become time-barred within three years after the patentee learns about the infringement (or does not learn about the infringement due to gross negligence). This three-year period starts to run at the end of the year when the patentee learns of the infringement (or does not learn about the infringement due to gross negligence).

In the case at hand, the Supreme Court found that the patentee might in fact not have known about the infringements until 2009 (as the patentee had argued). However, in the Supreme Court's view, the patentee was burying his head in the sand in respect of the infringement since at least 2004 and therefore acted with gross negligence since that year. This finding was based on the fact that Airbus had released the specification for aircraft seats that read on the patent in dispute in 2003. Given the fact that the patentee did the maintenance service for Airbus aircrafts he could have easily checked the seats and power supply systems installed in such aircrafts after the specification entered into effect (and at least in 2004). In consequence, when the patentee decided to take legal action almost seven years later in 2010, all damage claims for infringing activities prior to 1 January 2007 had already become time-barred.

However, in the end, this finding of the Supreme Court did not help the infringer. This is due to the fact that under German patent law, even in scenarios where the actual damage claims have already become time-barred, the infringer is, pursuant to § 141 Sentence 2 German Patent Act in conjunction with § 852 German Civil Code, for a period of 10 years (starting from the infringement) under the obligation to surrender such benefits to the patentee that were obtained by the patent infringement.

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IV. Decision

In the recent decision of the German Supreme "Electronic Power Supply System" (X ZR 109/16), the court held that such legal obligation of the infringer equates de facto to an independent damage claim of the patentee (so called "residual damage claim"/Restschadensersatzanspruch). Pursuant to the Supreme Court, this damage claim entitles the patentee to choose from either of the two damage calculation methods: i) license analogy/reasonable royalty or ii) surrender of infringer's profits. Only the third calculation method "own lost profits" is not available under the framework of § 141 Sentence 2 German Patent Act in conjunction with § 852 German Civil Code. Furthermore, the Supreme Court held that the corresponding obligation of the infringer to render account comprises the duty to disclose all information about the manufacturing costs, since the patentee needs such information to verify the "profits" that were generated by the infringer with the infringement.

V. Conclusion

For practitioners, the judgment emphasizes that patent infringements come at a high cost in Germany: Firstly, since the damage calculation method "surrender of infringer's profits" is applied by the German courts in a patentee-friendly way. Secondly, since it is now governing case law that the liability for such damage claims is given for a 10-year period starting from the infringement. Comparing such 10-year liability period with other hot spot countries for patent infringement – e.g. US: 6 years; UK: 6 years; FR: 5 years –, the German patent landscape remains most attractive for patentees. Last but not least, it must be taken into account that the corresponding obligation to render accounts is also very painful for infringers, since the manufacturing costs of the last 10 years must be disclosed to the patentee.

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