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"I used it first, don't ask me why" German Supreme Court Rules on Rights to Prior Use in Two Major Decisions

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The German Supreme Court this year passed two major decisions on the requirements for invoking a right to prior use. In its *Desmopressin* decision (June 12, 2012, X ZR 131/09), the Supreme Court ruled that knowledge regarding technical effects is not required for a prior user to be in possession of an invention as long as the manufactured product fulfills all of the features of the patent. In *Nabenschaltung III* (May 22, 2012, X ZR 129/09), the Supreme Court clarified the accessory nature of rights to prior use in constellations where the business to which the right to prior use is attached is sold, but the buyer and the seller continue to cooperate in the manufacturing process.

I. *Desmopressin*

To claim a right to prior use, two conditions must be fulfilled according to Sec. 12 German Patent Act:

- a) The prior user must have been in possession of the invention;
- b) the invention must have been exercised.

In “*Desmopressin*”, the Supreme Court deals with the question of when is a prior user considered to be “in possession of the invention”. By definition, the prior user must have been in a position to systematically reproduce the invention. In the underlying case, the patent in suit referred to a drug composition. Feature 3 of the patent requires a low concentration of oxidants and the description of the patent mentioned that this low concentration of oxidants was particularly responsible for the stability of the drug composition. The defendant had already manufactured such tablets with the described low concentration of oxidants before the priority date of the patent, and therefore invoked a right to prior use. The Court established that the defendant had systematically followed a recipe which led to a drug composition infringing the patent. What could not, however, be established was whether the defendant had been aware of the technical effect of the low concentration of oxidants or of the effect if the amount of oxidants should have been increased. To be precise, it seems from the text of the decision that it could not even be established whether the defendant had been aware at all of the precise concentration of oxidants. According to the court, to invoke the right to prior use, it sufficed that the defendant had systematically manufactured a tablet which fulfilled all of the features of the patent claim. A further subjective element, such as an awareness that a feature of the invention is used to achieve a certain technical effect was accordingly not required. The Supreme Court in its decision emphasized that a right to prior use cannot be made conditional on the knowledge of whatever technical aspect of the invention which

is not a part of the patent claim.

This decision, of course, casts some doubt on the understanding of the term “systematical reproduction” as it is not clear from this decision whether the prior user had even had full knowledge of all of the features of the patent claim. The decision points in a direction where a subjective element is not required at all, i.e. where all that is necessary is that the product fulfills all of the features and is produced systematically.

II. Nabenschaltung III

The purpose behind the right to prior use is the protection of investments made before the priority date of a patent. Such investments in a business should not have been in vain just because a third party files a patent application without knowledge of the prior use. To limit the harm to the subsequent patentee, the right to prior use has always been interpreted in a restrictive manner. It is considered accessory and thereby limited to the business where the prior used product was created. Prior use rights cannot be split off or sold, except if sold together with the entire business unit. In “Nabenschaltung III”, a bicycle manufacturer had a right to prior use to a manufacturing process for a breaking device subsequently protected by a patent. The bike manufacturing business was sold together with the right to prior use, but due to a contractual agreement, the buyer continued to cooperate with the seller. The seller still manufactured individual parts of the breaking device in his workshops and sold them to the buyer who then integrated them into the final product then sold. The Higher Regional Court in Munich held on appeal that the buyer could not invoke a right to prior use as part of the manufacturing process still taking place at the seller’s. As the right to prior use could not be split up, such an arrangement was not possible according to the appeal court and, the right to prior use could not be invoked by either party. The Supreme Court revoked the ruling and held that the right to prior use was not split up, but was clearly held by the buyer as he had the economic control over the whole process and the seller only took part in it as a toll manufacturer. The Supreme Court established this on the grounds that it was the buyer who could define the appearance of the end product and the seller had no right to modify the parts. In addition it was the buyer who in the end marketed the final product. Since it was therefore only the buyer who was active on the market, such a contractual arrangement would not lead to a multiplication of the right to prior use.

The lesson to be learnt from this decision is that in constellations where a right to prior use is transferred with the whole business unit, it should be ensured that it becomes clear from the contract that the entity purchasing the right to prior use is in complete control of its use on the market.

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This entry was posted on Thursday, December 6th, 2012 at 11:41 pm and is filed under [Enforcement](#), [Germany](#), [Prior use right](#)

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